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**POVERTY AND EMPLOYMENT:  
A COMPARISON OF POLICY AND OUTCOMES FOR  
SINGLE MOTHERS BETWEEN THE UNITED STATES  
AND NEW ZEALAND**

**PART 1: POLICIES AND OUTCOMES**

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**ABSTRACT**

Policy towards single mothers is a major issue in welfare reform for both New Zealand and the USA. These two countries have the highest proportion of single mother families in the OECD. In both countries, single mothers have the highest incidence of poverty, have lower educational attainment, have a strong ethnic bias and high unemployment rates. There is concern for children brought up in single parent families of inter-generational welfare dependency and poverty cycles. Although New Zealand has moved in the direction of USA single parent policy, with the recent introduction of work-fare and in-work benefits, there are significant differences in outcomes between the two countries. Economic and social policies and demographic differences are used to explain why the US has a high employment rate for single mothers, but a high poverty incidence, while New Zealand single mothers have a low attachment to the labour force, and a relatively low incidence of poverty. In Part 2, policy options are evaluated against the criteria of employment, poverty relief and impact on children, with policy options having to operate at national, state or regional and local neighbourhood areas to be successful.

**Keywords**

Single mothers, employment, poverty, policy.

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# **POVERTY AND EMPLOYMENT: A COMPARISON OF POLICY AND OUTCOMES FOR SINGLE MOTHERS BETWEEN THE UNITED STATES AND NEW ZEALAND**

## **PART 1: POLICIES AND OUTCOMES**

### **INTRODUCTION**

Single parent families with dependent children, whether never-married, separated, divorced or widowed, have dual roles as breadwinners and child rearers (OECD 1993). The conflict between these roles has often resulted in a lower standard of living and concern for the well-being of children brought up in single parent families. The conflict also highlights the appropriate role for the state versus the family in terms of support for the next generation. Countries place different emphases on the level of state involvement and preference for self-reliance, with this emphasis changing through time.

Growth of single parenting was the major demographic feature of the latter half of the twentieth century, especially those headed by never-married mothers. On average single parent families account for about 15 per cent of all families with children in the OECD, and the majority of these families are headed by single mothers. Over the life cycle, a far greater proportion of families with dependent children will experience single parenthood as a consequence of births outside marriage, divorce, separation and widowhood, with cohabitation, (re)marriage or children becoming adults as the source of exits from single parenthood.

There are several reasons why governments are concerned over this growth in single parent families:

1. Single parent families are more likely to suffer economic disadvantage and social exclusion, being over-represented among those with low incomes and high poverty rates.
2. There has been a large and increasing fiscal cost associated with supporting single mothers and their dependent children on welfare assistance programs.

3. There are potential negative effects for children growing up in single parent families, with the possibility of cycles of disadvantage, future welfare use, poverty and employment levels for those children.
4. In some countries, there has been political pressure applied by those who believe that welfare support for single parents has encouraged the decline in traditional family values and lifestyles.

To address these concerns, OECD countries have implemented a variety of social assistance and employment programs for single parents, with quite different outcomes in terms of poverty relief, employment levels, fiscal costs and trends in single parenting, especially teenage pregnancy. Each country places different weights on the inter-related objectives of containment of fiscal expenditure, poverty relief, self-sufficiency through employment, child-rearing and family development. The growth in single parenting has led to greater emphasis given to self-sufficiency through employment, in the belief that employment provides the long-term solution to poverty and fiscal costs.

Several international comparative studies have come up with a range of factors which influence employment such as age of mother, age of child, level of educational attainment and past employment record (OECD 1993, Bradshaw *et al* 1996, Whiteford 1997, Bradshaw *et al* 2000). Because of the large numbers of countries covered in these surveys, factors such as the objectives of programs and legislative details such as entitlement rules for receipt of welfare have not been focused upon. However, program rules and cultural attitudes may have a greater impact on outcomes than the incentive structure contained within the benefit system.

This study concentrates on two countries - New Zealand and United States. These countries have almost double the OECD average of single parent families, with a very similar demographic structure, including a strong ethnic bias, in their single parenting. However, the outcomes are very different - the US has a far higher employment rate of single parents, a much lower take-up rate of welfare but a significantly greater poverty level than New Zealand. The inference is that policy objectives, parameters, entitlement rules and the mechanics of policy implementation have a significant effect on outcomes. If this is correct, with New Zealand loosely moving in the direction of US policy, how can the employment objective be achieved without leading to a high incidence of poverty

among single parent families. It is also useful to know which of the different policy options achieve the objectives of encouraging employment, reducing poverty and improving outcomes for children.

Despite the significant population and country size differences (3.8 million in New Zealand compared to 280 million in the US), comparison of single parent policy between the countries is legitimate:

- Both countries are urban communities with significant minority populations. Maori make up 15 percent of New Zealand's population, slightly large than the African/American population share. Pacific Islanders and Hispanic/Latino populations have equivalent shares of about 7 percent– both are immigrant groups entering since the 1970s for employment, with smaller groupings of people from Asia..
- US policy on single mothers has always operated at a mix of state and federal levels. Since the change in policy in 1996, federal government involvement has been restricted to funding, setting general program directions and accountability requirements, with all policy details devolved to state level with often significant county and even district office level variation in policy formulation and implementation. The median US state, South Carolina, has the same population as New Zealand (but less sheep), and many counties and cities in the larger states are of comparable size (Fiske and Ladd 2000).
- Both of the countries fall under Esping-Anderson's (1990) liberal category of welfare states, with strong means-testing of welfare benefits, welfare services targeted to those in need, strict eligibility requirements and entitlement rules and relatively small levels of welfare expenditure<sup>1</sup>.
- Both countries have a dedicated benefit for single parents – the Domestic Purposes Benefit (DPB) in New Zealand<sup>2</sup>, and Temporary Assistance to Needy Families (TANF, which replaced the Aid to Families with Dependent Children (AFDC) program in 1996) in the US. Both countries have undertaken significant reform of policy to single parents over the last decade and are cautiously evaluating the outcomes.
- Single parents are concentrated in particular locations in both countries, separate from the major areas of employment. Baltimore, with the second largest share of single

parent families among large US cities, is typical, with single mothers in cheap accommodation in inner-city areas, with employment growth in the outer suburbs. In New Zealand, single mothers tend to be in the outer suburbs or rural areas, with employment growth in the inner city.

The paper starts by drawing upon the previous comparative research, then draws out the salient features for the two countries under study. The paper then looks in detail at policy development in both the US and New Zealand in the context of policy objectives, before proceeding to analyse the incentive effects in the design of policy. An analysis is made of the causes of growth in single parenting in both countries, as well as factors influencing employment levels. In Part 2, an evaluation is made of the underlying policy options and solutions to poverty and employment, with the evaluation requiring analysis at the national, state/regional and local neighbourhood level, as well as short- and long-term effects of the policy options.

## COMPARATIVE RESEARCH ON SINGLE MOTHERS

International comparisons allow policy makers to investigate how different policy frameworks approach the same policy issue, and then analyse how those frameworks have influenced outcomes. A major limitation is that differences in cultural perspectives and the economic and social context may render the comparisons meaningless. However, international comparisons allow new insights into old problems, and are often a cost-effective way of measuring the impact of alternative policy parameters.

For single parent policy, the US has a form of natural experiment. Comparisons can be made between the States that have set their own policy parameters under AFDC/TANF, allowing a comparative evaluation of the outcomes. For example, Liebschutz (2000) shows the extensive array of different policies that have been implemented since the development of TANF in the five states in her study on policy development, including differences at county and local office level. Crouse (1999) provides information on the major changes that states have made in their implementation of AFDC waivers and TANF policy parameters. In investigating the incentive effects of benefit levels on labour force participation, Bane and Ellwood (1994) and Moffitt (forthcoming) were able to make cross-section comparisons between the states. While the policy objectives, cultural background and economic context within which these evaluations are made are similar, giving validity to the results, the overall policy framework is also the same, preventing investigation of alternative frameworks and policy parameters.

There are two major approaches to international comparative studies on single mothers. One approach considers how the logic of single mother policy fits in with the wider welfare state regime, which is often perceived to be based on a male-breadwinner model (Lewis 1997, Duncan and Edwards 1997). The second approach analyses the factors underlying differences in outcomes, especially labour force participation rates for single mothers between countries (OECD 1993, Bradshaw *et al* 1996, Bradshaw *et al* 2000). However, the breadth of coverage of countries means that the impact of the details of policy parameters are not investigated. The latter approach is mainly used in this paper, but the paper draws upon the gender analysis studies to set the social and cultural context for policy development.

## Gender Analysis Studies

The former approach draws upon gender analysis. Sainsbury (1997) has shown how gender analysis can alter the perception of a welfare state regime, especially how it provides independence for women (from males, though not necessarily independence from the state). Single mothers are perceived as lacking a male breadwinner, but have children to support. Sources of income are absent fathers, the labour market, the state or charity (including the extended family). Contrasts are made between Sweden, where all adults are expected to be workers, and child care facilities and parental leave are available for all parents, Ireland where mothers are child carers, not employed workers, and Japan where single mothers are effectively forced into the labour market if they are to survive.

Lewis (1997) draws a distinction between the Northern European countries and English-speaking countries. In the former, single mothers are not singled out for separate policy analysis, but are treated in the context of wider family and gender policy issues such as child welfare, child care and employment of women. In the English-speaking countries, on the other hand, single mothers tend to be a controversial policy issue, with single motherhood being treated in moral as well as social terms, resulting in stigmatisation, especially of never-married mothers. These countries tend to use a male breadwinner model of the welfare state, where single mothers are treated as either workers or mothers, with the pendulum swinging towards work. The Scandinavian countries, on the other hand, treat all as adults as being in the labour market, resulting in different employment profiles over the life-cycle due to needs for child care. Citizenship rights dominate the political discourse, providing generous parental leave and access to universal care services.

According to Lewis (1997), the outcomes for single mothers, in terms of poverty and social exclusion, result from these policy logics. She accepts that the structure of earnings is as important as labour market participation. Moreover, single mothers will fare better when benefits for children are generous and care services are universal. Equity models developed by Fraser (1994, in Lewis 1997) reflect different forms of support for women: the universal care-giving model with low labour force participation and low poverty rates and parent-worker model, where earnings are the main source of

income. To bring forward the result of later analysis in terms of these models, New Zealand is best seen as being in the process of shifting from the former, but so far not providing the resources for child care nor the change in social attitudes required for the latter model. The US, while having many of the characteristics of the latter model in terms labour force participation and source of income, has not embraced its implicit social citizenship and egalitarian aspects, resulting in social exclusion of single mothers.

Duncan and Edwards (1997) also introduce the role of local neighbors as an often offsetting influence on attitudes and behaviors among single mothers to that of the policy regime. Each case study shows how the local neighborhood may be supportive of single mothers finding work through the provision of child care facilities, or may offset national policies on employment through the development of a community attitude to the role of mothering. Local opportunities for employment were also seen as important for influencing attitudes.

#### Labour Force Participation Studies

The major question raised in the second group of studies is whether the structure of the welfare regime has impacts on the prevalence of single parenthood and employment levels. These studies recognise that single mothers have a dilemma between child-rearing and bread-winning, but argue that “in general, employment is seen to be the surest route out of poverty and economic dependence” (OECD 1993, p.2). The studies then consider factors which may influence labour force participation rates such as the level of welfare payments relative to potential earnings levels and the impact of effective marginal tax rates as single mothers enter employment. Explanatory variables include economic data such as economic growth rates and unemployment levels, cultural factors often measured by employment rates for married mothers, demographic and social variables including the age of single mothers, their level of education and training, costs and availability of child care, and past marital status.

OECD (1993) compared labour force participation rates between single and married mothers for eight OECD countries (Australia, Austria, Canada, Finland, Netherlands, Sweden, UK and US). In all countries there had been a growth in the proportion of single mother families, with the US having both the fastest growth rate and



highest proportion of single mothers. Employment rates for single mothers tended to be similar but slightly higher than for married mothers, but the participation rate for married mothers had increased relative to single mothers. Over three quarters of single mothers were in the labour force in Sweden, Finland and Austria, two thirds in US and Canada and half in the other three countries<sup>3</sup>.

Given the similarity in employment rates between married and single mothers, explanations on labour force participation rates had first to consider factors affecting employment of all mothers. Both groups face similar labour force disadvantages and tensions between child-rearing and employment, though single mothers generally faced a heavier domestic burden. The availability of social assistance to single mothers was not seen to induce single parenthood nor to create a disincentive to full-time work. Higher levels of social assistance did not result in greater disincentives - in fact the countries with the highest levels of assistance also had the highest employment rates. The US and the Netherlands were highlighted, with the US having a low level of assistance and moderate employment rates while the Netherlands low employment and a high level of assistance.

The extent and cost of formal child care was an important factor determining labor force participation. Finland and Sweden have an extensive system of targeted child care, where as the UK and Netherlands had little child care provision. The US had high child care costs, but offset by tax rebates, federal funding provided to the states to help low income families and funding related to work-fare programs. Educational attainment was found to be important determinant of participation, and while active labour market strategies were seen as successful, US experience was drawn upon to show that labour market programs needed to be extensive and of long duration. The OECD also found that single mothers were more likely to participate in the labour force if already employed before becoming a single mother. Teenage mothers, due to their lack of education and previous work experience, and those with younger children, due to greater pressure for child-minding, had the lowest participation rates.

## Single Parents in New Zealand and the United States in an OECD Context

The motivation for this comparative study is set out in Table 1, derived from Bradshaw *et al* (1996). They had extended the OECD (1993) coverage to 20 OECD countries, and used national academic informants<sup>4</sup> to supply information on their home country's policies policy and performance in regard to single parents<sup>5</sup>. The analysis was similar to the OECD (1993) except for a more detailed study of the impact of tax and benefit systems on the financial incentives facing single parents. Although there were significant differences between the countries in the proportion of single mothers in poverty, the major finding was that employment of the single parent substantially reduced their likelihood of poverty. However, this conclusion is not applicable to either the US or New Zealand.

Column 1 of Table 1 shows that in 1992 the US and New Zealand clearly have the highest proportion of single parent families, as a percentage of all families with dependent children, in the OECD. There is a clear gap between the US and New Zealand with over a quarter of families being single parent families to the next group of northern European and Anglo-Saxon speaking countries at about 20 percent. In southern Europe the proportion of single parent families is around 10 percent, and Japan only 5 percent. These regional differences indicate that cultural and perhaps religious factors are important in determining the prevalence of single parenthood.

Not all countries use the same definition of single parenthood. There are minor variations for age of dependent children, though the norm was for dependent children up to the age of 18. A larger problem occurs with unmarried cohabiting couples, where one partner, usually the male, is not the biological parent of the child. If that person shares income and expenditure, then most countries regard these as cohabiting couples. Both Norway (until 1993) and the US following a court decision in 1969, regard these as single parent households. In the US, London (2000) estimates that 12 percent of single mother welfare recipients cohabit with an unrelated man, but legitimately receive AFDC. Primus *et al* (1999) indicate that about 13 percent of single mothers cohabit and share income in the US. Adjusting the US definition to that of New Zealand mean that both countries have roughly the same share of single parent families (and Norway 18 percent).

In all countries, the majority of single parent families are headed by women. As single fathers are generally older, have higher labour force participation and less likely to be in poverty, most analysis concentrates on single mothers. In addition, the US welfare benefit, AFDC, was only available to single mothers, with the presumption that single fathers would be in employment. Single fathers are eligible for AFDC-UP, a programme for unemployed parent with dependent children. Since the development of TANF, each state can determine eligibility for cash assistance, and many states, for example Maryland, now cover all 'needy families'.

**TABLE 1**  
**DEMOGRAPHIC AND EMPLOYMENT CHARACTERISTICS OF SINGLE**  
**PARENT HOUSEHOLDS in 19 OECD Countries, circa 1992**

COUNTRY	Single parent family % all families	Single mother % single parents	<u>Single Mothers % Employed</u>			% Married mothers employed	Child poverty rate - 50% inc	
			Part-time	Full-time	Total		Single	Two Parent
<b>USA</b>	<b>29</b>	<b>87</b>	<b>13</b>	<b>47</b>	<b>60</b>	<b>64</b>	<b>59.6</b>	<b>16.7</b>
<b>New Zealand</b>	<b>25</b>	<b>84</b>	<b>10</b>	<b>17</b>	<b>27</b>	<b>58</b>	<b>19.5**</b>	<b>5.1**</b>
Norway	21	91	17	44	61	77	10.4	3.4
UK	21	91	24	17	41	62	40.3	17.5
Denmark	19	87	10	59	69	84	10.5	5.5
Germany	19	84	12	28	40	41	43.3	8.5
Sweden	18	85	29	41	70	80	4.5	3.6
Australia	18	87	20	23	43	56	38.3	14.7
Netherland	16	85	24	16	40	52	29.6	6.8
Finland	16	87	4	61	65	70	6.2	3.0
Austria	15	88	15	43	58	46	33.2	2.9
Portugal	13	86	7	43	50	55	--	--
France	12	86	15	67	82	68	25.4	7.7
Ireland	11	90	-	-	23	32	--	--
Belgium	11	88	16	52	68	61	11.8	6.1
Spain	7	87	-	-	68	38	25.2	12.4
Luxemb	7	83	13	61	74	45	30.1	4.4
Italy	6	83	11	58	69	41	20.2	20.9
Japan	5	85	34	53	87	54	--	--

\* Because of paucity of data, Greece has been omitted from the comparison..

\*\* New Zealand added, data not strictly comparable: see text for details.

Source: Bradshaw *et al* (1996), Bradbury and Jantti (1999)

The next column looks at employment for both single and married mothers. From 8 countries, OECD (1993) argued employment rates for these mothers were similar. The employment rate for married mothers was an indication of the socio-cultural environment of a country, in particular its expectations and attitudes towards employment of females. Thus explanations of labour force participation had to first consider factors affecting the employment of all women before making any separate investigation of single mothers. Both groups face similar labour force disadvantages and tensions between child-rearing and employment, although single mothers generally faced a heavier domestic burden. However, extending the range of countries to 20 resulted in a much greater diversity of employment rates both for single mothers and between single and married mothers.

Employment rates for single mothers in the US are more than twice those of New Zealand, at roughly the OECD average. Single mother employment rates are equivalent to those of married mothers in the US. New Zealand, on the other hand, had the lowest employment rate for single mothers bar Ireland, and the largest differential in employment rates between married and single mothers. This immediately raises the question of whether there is anything in the structure or operation of the DPB to reduce employment rates for single mothers, whereas AFDC/TANF would appear to be more neutral (or employment is seen as the prime objective for all women in the US).

Sweden has high levels of employment for both single and married mothers and a system which is highly supportive of women working; Germany and Ireland have a relatively low level of employment for both groups, and an expectation that the mother will be at home to look after the children (Duncan and Edwards 1997). Japan has an exceptionally high level of employment for single mothers, and only a modest rate for married mothers: a strong version of the male breadwinner model lowers the employment rate for married mothers, but also provides strong stigma about single motherhood and receipt of social assistance (even though that assistance is reasonably generous) (Peng 1997).

Countries also have quite different divisions between full- and part-time work. In the US, full-time work dominates for both single and married mothers. In New Zealand, married mothers are as likely to work part-time as full-time, but single mothers who work are more likely to be full-time. In both countries, the low share of part-time workers

raises the issue of whether the welfare system discourages part-time work. In the UK and Australia, part-time work is as likely as full-time, but in the Scandinavian countries, full-time work is more likely. The Scandinavian employment rates are not quite as high as shown – in Scandinavia all parents (only one at a time for couples) are eligible for up to three years parental leave, with those on parental leave being regarded as in employment.

The final columns look at child poverty, and throw some doubt on the OECD (1993) claim that employment is the route out of poverty. The US, with an average employment rate for both single and married mothers, has by far the highest poverty rate for children, whether brought up in single or two parent households. New Zealand, on the other hand, has a moderate poverty rate despite its low labour force participation for single mothers. In the wider OECD context, the Scandinavian countries tend to have high employment rates and low poverty rates for single and two-parent families, with the single family poverty rate in excess of the two-parent. However, the Anglo countries and Germany have low employment and high poverty rates.

There is little New Zealand evidence to support the research done by Edin and Lein (1997) in the US to show that single mothers have a substantially larger income than reported, and consequentially lower poverty incidence. The groups in New Zealand who spend more than their income are largely farmers, the elderly and couples without dependent children (Stephens *et al* 1995). Edin and Lein (1997) used ethnographic techniques to show that a small group of single mothers in Chicago received substantial earnings from a variety of sources, both legal and illegal, far more than allowed under AFDC rules without substantial benefit abatement. A study currently being undertaken by Moffitt and Cherlin may be able to show whether there is widespread underreporting of income by single mothers.

The poverty data, except for New Zealand, comes from an analysis of the 1995 Luxembourg Income Study (LIS) data base by Bradbury and Jantti (1999). The poverty level is set at 50 percent of median equivalent household disposable income for each country, using the LIS equivalence scale. The New Zealand information comes from a similar analysis undertaken by Stephens *et al* (1995, 2000), using a slightly less generous equivalent scale for single people and per additional children<sup>6</sup>. However, some 45 percent of single parent households and 50.9 percent of children are below a slightly more

generous poverty level of 60 percent of median household equivalent disposable income. This indicates that the DPB has kept many children from being in serious poverty, but still suffer the hardships from an inadequate income.

Bradshaw *et al* (1996) compare poverty rates, using LIS data and 50 percent of median income poverty line, on the basis of whether single mothers are employed or not. This analysis gives credence to the claim that employment reduces the incidence of poverty. The largest difference is for the US, where in 1991, unemployed single mothers had a poverty rate of 85 percent, while those employed still had a very high rate of 30 percent. The UK had a poverty rate of 80 percent for single mothers not employed compared to 27 percent for those in employment, while the Swedish differential was 10 percent to 1.0 percent. If New Zealand is added (roughly - the sample size is too small to give the appropriate breakdown), then the poverty rate for single parents in full-time work was about 4 percent and 19 percent for those not in work.

#### Scandinavia versus the British Tradition

In an unfair contest, Bradshaw *et al* (2000) compared the Scandinavian countries of Sweden, Norway and Denmark - the so-called social democratic welfare states - with Australia, UK and New Zealand - liberal, means-tested or residual welfare states. All of these countries have had above average levels of single parenthood and have introduced significant policy changes over the last decade. The analysis concentrated on both trends in demographic factors influencing single parenting and the relationship between earnings levels, in-work and out-of-work benefits.

The demographic analysis failed to show any clear distinction between the social democratic and liberal regimes. Divorce rates have stabilised, teenage fertility has gradually declined, and although births outside marriage have increased, with a higher prevalence in Scandinavia, this is due to cohabitation. Many of these 'extra-marital' children are born in stable relationships. The incidence of single parenting increased in all countries until 1990, but since then growth has been contained in Scandinavia but continued in the three Anglo countries, with the fastest growth in New Zealand.

The initial analysis concentrated more on the similarities in trends in single parenting and employment between the countries, rather than the effects of policies on

outcomes. As shown above, the polarisation of welfare states produced a greater distinction in terms of poverty, with generally the Scandinavian countries having very low poverty rates for single mothers and Anglo-Saxon countries very high rates. Employment levels also varied: the Scandinavian group having far higher employment levels than the Anglo-Saxon countries. Benefit replacement rates were significantly higher in the Scandinavia countries, with generous benefit levels, especially when housing and child-care assistance was included. The high benefit levels and high employment rates raises queries over the importance of labour force incentive effects, and places the emphasis on cultural expectations and policy parameters.

### Implications of the International Comparisons

This paper draws upon these last two studies, but restricts the analysis to a comparison between the US and New Zealand. The US stands out from its Anglo-Saxon cousins having an employment rate comparable to Norway, and probably Sweden and Denmark when adjustments are made for the length of maternity leave, but a poverty rate for single mothers in excess of the Anglo-Saxon countries. New Zealand has also been seen as an outlier, with lower employment rates, relatively high replacement rates but medium poverty rates for children in single parent families, explained by a relatively high benefit level and moderate earnings in employment.

The expectation is that a comparison of ‘similar’ countries, with differing employment and poverty outcomes, may offer policy makers with more insights into improving policy for single parents than that based on opposites or a systematic trawl through inter-country data. In a two-country comparison, policy detail can be considered in depth along with social, economic and demographic variables.

These international comparisons raise several issues to investigate:

- What factors have led to the high proportion of single parent households in both countries? As an aspect of this, has the existence of a benefit for single parents increased their prevalence in the population?
- What has been the impact of policy on the proportion of single parents receiving welfare assistance, and fiscal expenditure on single parents?

- Why does the US have a high poverty rate for single mothers when their employment rate is also relatively high? And what accounts for the relatively low poverty rate in New Zealand, given a low employment rate for single parents?
- What is the impact on the welfare of children if brought up with a single parent, and is there any effect on well-being if the mother is employed or receives a welfare benefit?
- Which policies, or combinations of policies, can provide employment at an adequate wage, while having no adverse consequences on children?

To answer these questions, it is necessary to provide some details of the policies in the respective countries. As current policies are a product of not only current political views and issues, but also the historical development of the policy, its underlying objectives and assumptions about human behaviour, it is necessary to provide a brief review of the development of single parent policies in both countries. (For a more extended review see, for the US, Garfinkel and McLanahan (1986) and Mayer (1999), and for New Zealand, McClure (1998) and Goodger (1998).



## **SINGLE MOTHER POLICIES IN THE US AND NEW ZEALAND**

Both the US and New Zealand provide a dedicated assistance package to single parents in need: Assistance to Families with Dependent Children (AFDC), replaced by Temporary Assistance to Needy Families (TANF) in 1996 in the US, and the Domestic Purposes Benefit (DPB) in New Zealand, now part of the Community Wage scheme, as well as a Widows Benefit. These assistance schemes are part of a wider array of welfare benefits provided in both countries. This wider perspective is first provided before looking at the details of AFDC/TANF and the DPB.

### **New Zealand**

In New Zealand, welfare assistance is provided in cash<sup>7</sup>, all financed from general tax revenue. There is no social insurance (except for accidents) or specific contributory charge. The Pensions Act 1898 established the targeted nature of the welfare system, to which widows were added in 1911 as a 'deserving group'. After the 1930s depression, the Social Security Act 1938 provided the foundation for New Zealand's welfare state, with an objective "to make an end to poverty and to free dependent individuals from being an economic burden to relatives or friends" (quoted in Boston 1999).

Eligibility is based initially on residency and then being part of a category of people likely to be in need - the elderly, unemployed, sick, invalids, widows and single parents, with a specific benefit dedicated to each category. Except for the universal old age pension, the second test of eligibility is one of need, based on an income test, with the test applying to the income of both partners (but not their children) in a couple relationship. The benefit level is the same throughout the country for each category of beneficiary, and is adjusted for differences in family size through payment of the family support tax credit (FSTC).

The benefit level varies between the categories, based partly on labour market participation requirement (the rate is highest for old age pensions, then invalids, sickness, DPB and widows, with the unemployment benefit paying the least). The benefit level is designed to cover 'normal' living costs, and is usually uprated annually on the basis of movements in consumer prices. What constitutes 'normal' has varied: between 1972 and 1991, beneficiaries were meant to "be able to belong to and participate in the

community” (Royal Commission on Social Security 1972), but since 1991 “a modest safety net” has underpinned the system. There is a work activity test, but until 1991 it was not strictly enforced. There is no time limit on duration of benefit.

Table 3 provides a breakdown of expenditure, and trends, as a percentage of GDP. After pensions, the largest single item of expenditure is now the DPB, for single parents, although this has partly been offset by a fall in expenditure on the Widows Benefit. An adverse macro-economy resulted in increasing unemployment during the 1980s, shown in expenditure on the unemployment benefit, but with spillover effects onto other benefit categories (see Stephens 1999 for a more detailed explanation).

**Table 2**  
**Social Security Expenditure in New Zealand (as proportion of GDP)**

<b>Benefit Type</b>	<b>1980</b>	<b>1990*</b>	<b>1992</b>	<b>1994</b>	<b>1996</b>	<b>1998</b>
Domestic Purposes	0.9	1.6	1.5	1.5	1.6	1.7
Widows	0.3	0.2	0.1	0.1	0.1	0.1
Unemployment	0.3	1.7	1.9	1.8	1.4	1.6
Sickness/Invalid	0.4	0.7	0.8	0.9	1.0	1.1
Other**	<u>0.7</u>	<u>1.6</u>	<u>1.9</u>	<u>2.0</u>	<u>2.0</u>	<u>1.9</u>
Total Income-tested	2.6	5.8	6.2	6.3	6.1	6.4
Family***	1.1	1.0	0.5	0.8	0.8	0.8
Pensions	<u>6.7</u>	<u>6.7</u>	<u>7.4</u>	<u>6.5</u>	<u>5.9</u>	<u>5.5</u>
<b>TOTAL</b>	<b>10.4</b>	<b>13.5</b>	<b>14.1</b>	<b>13.6</b>	<b>12.8</b>	<b>12.7</b>

\* In 1986, all income-tested benefits were taxed and grossed up by the amount of the tax. About 10% of the increase in gross expenditure can be attributed to this policy.

\*\* Other includes orphan’s and unsupported child benefits, the second and third tier benefits (see text) and administration expenses.

\*\*\* The universal family benefit was abolished 1 April 1991. From 1986, the amount covers family support paid to low income workers, and from 1997, the in-work benefit, the independent family tax credit.

These categorical benefits amount to 90 percent of expenditure and provide passports to second and third tiers of benefit. The second tier recognises that individuals have different unavoidable expenditures, and may need additional assistance based on their own circumstances. The second tier covers above average housing costs, child-care subsidies and allowances for training, disability and handicapped children. The third tier provides ‘a safety net’ in the form of special needs grants and special benefits which are

designed to meet emergency and additional needs. They are income- and asset-tested, and account for about three percent of benefit expenditure.

### The United States

Compared to New Zealand's exclusive reliance upon social assistance, the US operates a hybrid system of income maintenance. In 1992, some 39.2 percent of income maintenance expenditure came from income-tested welfare, the remainder being based on social insurance principles. The US is noted for the extent of its reliance upon employer-based benefits such as health insurance and private occupational pensions as well as tax expenditures, with reductions in tax liability made for dependent children, health and education costs and mortgage repayments. These tax expenditures largely accrue to middle and upper income groups, giving a high degree of middle-class capture. Tax expenditure are not included in government expenditure, as thus excluded from Table 3<sup>8</sup>.

Another distinguishing feature of the US welfare state is its use of non-cash transfers such as Food Stamps and Medicaid. These means-tested programs seem to be based on a lack of trust that consumers (or at least low-income consumers) are the best judge of their own welfare and need to be directed in the form and content of at least some of their expenditure. In-kind payments protect the more vulnerable members in a household such as children from misuse of income by adults and satisfy taxpayer requirements over the direction of expenditure. They receive support from producer groups who benefit from the certainty of either spending (as with food stamps) or payment for treatment (Medicare). From a public choice perspective, these in-kind transfers are provider capture – the Food Stamp program was set up to promote the interests of farmers, and is operated by the Department of Agriculture, not Health and Human Services which run the cash transfer programs (Mayer 1999).

The major social insurance programs and welfare programs were introduced as part of the New Deal in the 1935 Social Security Act. The New Deal was designed to revive the economy and provide full employment as a response to the 1930s depression. A distinction was made between those expected to work, with insurance programs financed from payroll taxes, and those not expected to work, who would receive means-tested assistance financed from general tax revenue.

The major insurance programs are the old-age and survivors insurance program (OASDI), unemployment insurance and Medicare. OASDI provides rights-based benefits to retired or disabled workers and their dependants, and to survivors of insured workers, with payments related to past earnings. OASDI (Social Security) represents the largest component of the US expenditure on social welfare (Table 3). Medicare provides health cover to all those over 65, and can be supplemented from personal funds. Unemployment Insurance requires recent employment with a covered employer, and although about 90 percent of all employed persons are covered, only about half of unemployed people receive unemployment insurance benefits, due to time limits for eligibility, insufficient earnings coverage and disqualification due to voluntary separation or job refusal.

**Table 3**  
**Trends in Expenditure on US Income Maintenance Programs\***  
**(as percent GDP)**

Benefit Program	1980	1990	1992	1994	1996	1998
AFDC/TANF	0.3	0.2	0.3	0.3	0.3	0.2
Food Stamps	0.3	0.3	0.4	0.4	0.3	0.3
EITC	0.05	0.08	0.1	0.2	0.3	0.3
Supplementary SI	0.2	0.2	0.3	0.4	0.3	0.3
Other Means-Tested**	0.3	0.3	0.2	0.2	0.2	0.2
Total Means-Tested	1.2	1.1	1.3	1.5	1.4	1.3
Social Security	4.4	4.5	4.8	4.7	4.6	4.5
Unemployment	0.6	0.3	0.6	0.4	0.3	0.3
Other***	2.9	1.7	1.9	1.5	1.5	1.5
<b>TOTAL</b>	<b>9.2</b>	<b>7.6</b>	<b>8.6</b>	<b>8.1</b>	<b>7.8</b>	<b>7.7</b>

Source: Committee on Ways and Means (various years)

\*For comparability with New Zealand, health expenditures and health insurance such as Medicare and Medicaid have been omitted. All New Zealanders are covered by a tax-funded health system, though private supplementation is common and there is targeted assistance to low income households to pay for primary health care.

\*\*Includes expenditure on child nutrition, Stafford loans and veterans' pensions.

\*\*\*Includes retirement and disability expenditure, farm price support, social services, veterans' benefits.

The means-tested social assistance programs of Aid to Dependent Children (later Aid to Families with Dependent Children, AFDC) and Old Age Assistance were designed for those not expected to work. Benefits depend upon need, not past earnings. Both programs were meant to wither away – Old Age Assistance due to expansion of insurance

under OASDI, and AFDC as single mothers received benefits from widow's insurance or from non-custodial parents. Neither withered, due to low earnings levels during working age and a significant rise in the number of female-headed households due to increasing rates of divorce, separation and out-of-wedlock births.

Mayer (1999) claims that "(the) major premise of the American welfare state is that a free labour market is the first and best defense against poverty, and that fostering equal opportunity in education and employment will maximize both economic growth and economic well-being for individual families." More than any other OECD country, the US relies upon work to provide an adequate income, rather than social spending. The development of the Earned Income Tax Credit (EITC), on a negative income tax basis, is an explicit recognition that employment earnings will not all be adequate, and need to be supplemented from government spending. As Table 3 shows, EITC has become a major component of the US welfare system, yet it maintains the logic of primacy given to employment income.

### **The Development of Single Parent Policy in the US and New Zealand**

The original development of social assistance for single parents in both countries came from a need to reduce the risk of poverty among single parent families, with special concern over the impact of poverty on children brought up in those families. Social judgements have also influenced policy development. Subsequent policy developments have often been a reaction to unintended consequences of the original legislation. While the origins of single mother policies in both countries are very similar, changing objectives and policy responses have resulted in divergent systems. A comparison of Tables 2 and 3 indicates that New Zealand spends substantially more per capita on welfare and single parents than the US. Chart 1 (in the Appendix), beginning in 1980, shows how the US has curtailed the growth in numbers on AFDC/TANF, with even bigger containment of government expenditure. New Zealand, until 1999 at least, has had inexorable growth in both numbers on the DPB and fiscal expenditure. To understand these trends, it is necessary to consider the development of policy in both countries, and how these are either a reaction or cause of blips in the trend lines in Chart 1.

The New Zealand Widows Benefit was introduced in 1911 for a ‘deserving’ group who had been unable to work, with many being forced to place their children in orphanages. Deserted women were excluded until 1938 and never-married mothers until 1969, having to rely on judicially-enforced private maintenance, charitable relief or employment. In the US, AFDC was introduced in 1935 to replace a non-uniform set of mothers pensions operated by most states. The mothers pension was based on the principle that the mother was the best carer of her children, that most women could not be a home maker and breadwinner, and that private charity was insufficient to deal with the problem. Deserted mothers were included in most states (Crenson 1998). These principles were continued in AFDC, covering all sources of single motherhood, but not single fathers. Because of its historical origins, AFDC was run and administered by the states, each state sets its own benefit level, but with significant federal funding and federally determined entitlement rules and regulations.

The Social Security Act 1935 had twin objectives of providing relief to people in need as well as preventing as many people from being in need as possible. Continued expansion in the number of people receiving AFDC in the 1950s, due to increased rates of divorce, separation and out-of-wedlock births, meant that the second objective was not being achieved. The result was the first War on Poverty, and the start of the switch in emphasis from child-rearing to employment. President Johnson wanted to provide a ‘hand-up, not a hand-out’.

The policy problem was not the lack of motivation of single mothers to find employment, but a lack of the requisite labour market skills to provide sufficient earning power. The policy solutions were to improve schooling in poor areas, assist poor adults acquire skills, revive depressed communities and improve access to health care for the poor with the introduction of Medicaid. Medicaid increased the attractiveness of the AFDC package, as did food stamps when turned into a national program in 1972 (Fraker and Moffitt 1988). When the increased real effective benefit level combined with a legal ruling that AFDC was available to cohabiting single mothers provided that the father was not the biological parent, caseload numbers increased from 67 percent of eligible families in 1967 to nearly 90 percent in 1971 (Garfinkel and McLanahan 1986).

The second war on poverty changed tack, providing incentives for single mothers to enter the work force with the introduction of the in-work benefit, EITC, and small earnings disregards for those on benefits. Work motivation problems were also addressed with the introduction of a requirement for single mothers with youngest child six and over being required to register for work. This change of emphasis to work occurred at the same time that a Royal Commission on Social Security (1972) in New Zealand recommended both an increase in the level of welfare benefits as well as the introduction of the DPB for all single parent families.

The DPB was introduced at a time of changing perceptions on the employment of women. In 1971, 60 percent of separated and divorced women were in the labour force compared to 28 percent of married women (Hyman 1978). The Royal Commission on Social Security (1972) recommendations were based on a male breadwinner model of society, and the DPB was established on the basis that single mothers need not go out to work, but should provide full-time care for children. The structure of the DPB was designed to provide income adequacy rather than incentives for employment. Goodger and Larose 1998 argue that the DPB represents a significant contributory factor in accounting for the reduction in employment of single mothers whilst employment rates for married mothers increased.

Garfinkel and McLanahan (1986) offer three explanations for the substantial change in the attitudes in the US to whether single mothers should work:

1. There was a compositional change in single mothers, from being predominantly white to being 50 percent African-American.
2. A change in the cause of single-parenting from widowed to divorced, separated and never-married, with the latter representing the fastest growth and being younger on average.
3. The substantial increase in married women's labour force participation, which made it acceptable for women with dependent children to be in the workforce, as well as providing child care facilities to enable them to work.

In New Zealand, concern over the growth of numbers and expenditure on the DPB initially led to queries over whether the benefit was increasing single parenthood. Although no evidence was found, it was recognised that more liberal divorce laws and

less stigma of receipt of benefit were contributory factors. It was not until the mid-1980s that the growing disparity between employment rates for married and single mothers led to a review of policy, and then in the context of a wider change in social security benefits.

The Reagan era saw no new programs, but increased the emphasis on work by altering both the incentives structures and the work requirements for AFDC. As part of supply-side macro-economic policy, the Omnibus Budget Reconciliation Act 1981 (OBRA) lowered benefit levels in AFDC, food stamps and Medicaid (but less severely than Reagan wanted), and reduced the number of families eligible for AFDC by lowering the income level at which families became eligible. A decade later, the 1991 benefit cuts of roughly 14 percent fall in the real value of the DPB in New Zealand were also designed to provide labour force incentives as well as fiscal savings as part of a supply-side macro-economic policy. As Chart 1 shows, the benefit cuts plus tighter eligibility conditions temporarily slowed down the growth in numbers and fiscal expenditure, whereas Reagan's policies in the US stopped the growth in welfare receipt and expenditure, despite increased numbers of single mothers.

In both countries, there also were some positive work-force incentives. The US saw an easing of asset limits for food stamps and making Medicaid available to women with children under 6 whose family income was less than 133 percent of the poverty line. This provided a strong positive incentive to enter low-paying or part-time work as previously many welfare recipients lost access to health-care coverage when they took employment because their employer did not offer health insurance. The New Zealand Labour government had provided positive incentive effects for all beneficiaries as part of a radical reform of the tax system in 1986, through the provision of in-work benefits such as the guaranteed minimum family income and family support tax credit being extended to low income workers, and the extension of earnings disregards to encourage part-time work.

More important for trends in welfare receipt was the strengthening of work requirements. Under OBRA, AFDC mothers with children three and over were required to undertake community work to receive their benefits. This represents a different view on human motivation – people do not respond sufficiently to economic incentives to ensure employment, due to lack of motivation or attitude, and thus had to be mandated



into the labour market. In New Zealand, work requirements for single mothers with children 13 and over were first discussed in the 1991 budget, but were not proceeded with at that stage due to an adverse macroeconomic situation (partly induced by the benefit cuts).

In 1988 Congress passed the Family Support Act, seen as a forerunner to the Clinton 1996 revision of welfare. The major thrust of the Act was to ensure that single mothers would become self-sufficient through the operation of work placement programs. States were given flexibility in the way that they operated their Job Opportunity and Basic Skills (JOBS) programs, ranging from post-secondary education to job search clubs or community work experience. Mayer (1999) reports that most states operated minimal programs and few participants received help searching for jobs. All the same there were several favourable reviews of the JOBS programmes.

Gueron and Pauly (1991) and Friedlander and Burtless (1995) reviewed the literature which evaluated the JOBS program, especially the welfare-to-work aspects. They used a variety of criteria, including the change in welfare roll and welfare expenditure, the likelihood of permanent employment for participants and impact on earnings and poverty levels. Gueron and Pauly found a consistent and measurable increase in employment and earnings for participants, with the earnings increase more than offsetting the reduction in the level of welfare benefits. However, many of those moving off welfare remained poor. The gains were not evenly spread: the most employable, mainly first time welfare applicants, made little gain relative to a control group, while those with little recent experience gained most, even though a high proportion remained on welfare, and long-term recipients did not gain at all. In addition, both studies found that mandatory unpaid work does not achieve the objectives, though work experience is useful for long-term welfare recipients; that active job-search is the most cost-effective in terms of increasing incomes; and that education and training is required as well as job-search assistance to find employment which pays an adequate wage to avoid poverty.

## The Clinton Years and PRWORA

In the US, the economic recession of the early 1990s resulted in expenditures and numbers on AFDC starting to increase after a decade of no growth (Chart 1). Clinton came to office promising to ‘end welfare as we know it’, by changing the focus of AFDC from income support to employment. The final bill which was passed was a political compromise between the Republican dominated Congress and Democrat Clinton. The Republicans wanted to preserve traditional family values, and thus end illegitimacy and family breakdown, especially teen motherhood (Waldfogel 1996). The Personal Responsibilities part of the Act banned assistance to unwed teen mothers and their children, stopped assistance until paternity was established and imposed time limits on assistance.

The New Zealand government used a different approach to personal responsibility among beneficiaries. It tried to introduce a Code of Family and Social Responsibility, intended to ensure a system of reciprocal obligation on those receiving assistance from the state. The code was not about the responsibility of the state to its citizens, but instead about parental responsibility to ensuring their children receive education, immunisation etc., with mandatory sanctions for failure to comply (Boston 1998). The approach failed partly because of political ineptitude. It was also at variance with the general mores of the population who believed that the government had not spelt out its obligations, such as a rapidly growing economy and adequate provision of health care.

Prior to the passing of the Personal Responsibility and Work Opportunity Act 1996, (PRWORA) Clinton developed the ‘new federalism’, with devolution of responsibility from the federal government to the states. The federal government had power to grant states waivers to the AFDC rules to introduce experimental and pilot programs which were consistent with the goals of AFDC. With waivers being granted to 43 states, ranging from time limits on welfare, greater earnings disregards before benefits are abated with earnings, tighter work requirements and limitations on increases in benefits if single mothers had an additional child, AFDC had ceased any resemblance of a uniform, nation-wide program.

PRWORA is an interesting mix of strict federal mandates on the behaviour of single mothers, considerable flexibility in the devolution of programme design to the

states, subject to output-based accountability mechanisms operating via a mix of financial inducements and penalties at both state and individual level. The final determination of PRWORA incorporates most of these waiver program parameters. Under PRWORA, AFDC was replaced by a block grant to each state called Temporary Assistance to Needy Families (TANF). The JOBS and Emergency Assistance programs were incorporated into a \$16.5 billion annual block grant from the Department of Health and Human Services to the states. The size of each state's grant was based on the average 1992-94 payments or the 1994 level of federal expenditure to each state on these programs. States could qualify for supplemental funds based on having high population or poverty rates compared to TANF funding, a contingency fund if there is high State unemployment, and welfare-to-work grants. Bonuses can be paid for 'high performance' and reductions in out-of-wedlock births without increasing abortion rates.

From a New Zealand perspective, it is interesting that an operating Act did not have final agreement on the regulations. While there are some differences between the 1996 law and the final set of regulations issued on April 12, 1999 (Schott *et al* 1999), the fundamental principles underlying the final TANF regulations enhance state flexibility in the operation and administration of TANF funds. All states have interpreted PRWORA in supporting work activities rather than welfare receipt. Each state has developed a range of regulations and programs which encourage work activities.

TANF does not set up national rules of entitlement, but allows the states to determine eligibility. States continue to set benefit levels, and can determine which categories of families in need they will assist. Maryland, for example, provides assistance to all needy families, thereby effectively collapsing AFDC and AFDC-UP into a single program, with the same eligibility criteria. Under TANF, states can contract out the administration of benefits and provision of services to charitable, religious or private organisations, and many states have taken up this option, resulting in accountability issues (Liebschutz 2000).

To help achieve the second and third objectives, States are forbidden to use the block grant to provide benefits to unwed mothers under 18 who do not live with an adult relative and who do not have high school diploma or still in school. Immigrants of less than five years residency are not eligible for federal funding. TANF has also set a five-

year time limit on receipt of benefits, with that five years applying over the life-time of receipt of benefits. States are allowed to exempt 20 percent of their base caseload from this requirement for hardship reasons. This is a recognition that some people do not have the skills or personality to hold down employment (Lerman 1998). The five year time limit only applies to the use of cash assistance funded from the federal government: it does not apply to state funded assistance or to 'non-assistance' such as child care and transportation services provided to families in work, counselling and employment services which support work, short-term crisis assistance or pregnancy prevention services. Many of the programs developed by the states are specifically labelled non-assistance (as an example, see the extensive use of non-assistance in Maryland's TANF plan in Glendening *et al* 1999).

While TANF has given states considerable discretion in the way that they operate welfare in response to the receipt of the block grant, to receive the full block grant, states have to meet specific output targets. TANF requires that welfare recipients be engaged in work activities after a maximum of two years of receiving benefits, and participate in community service after just two months of assistance, though states can and have opted out of this last requirement. Work activities include: unsubsidised employment, subsidised public or private sector employment, work experience, on-the-job training, job search and job readiness assistance (for 6 weeks or longer if the state has a high unemployment rate). Weekly hours for work activities have risen to 30 hours per week, except 20 hours for those with a child under the age of six.

States must expend a certain amount of their own funds (maintenance of effort rule). Before TANF, the Federal government reimbursed the states for about 55 percent of welfare expenditure, with the states paying the other 45 percent (\$13.9 billion in 1994). Failure to maintain the state's expenditure level results in a reduction in the subsequent year's family assistance grant. States must also ensure that work activities be undertaken by 25 percent (rising to 50 percent by 2002) of all beneficiary families, though states may exempt single parents with child under one from the work requirement.

States are given incentives to comply with the legislation: for instance, with the maintenance of effort funds, states must show that they are spending 80 percent of their 1994 non federal funds spent on AFDC on TANF, but this is reduced to 75 percent if they

meet the work participation requirements. There are also bonuses – for states that reduce out-of-wedlock birth without increasing abortion rates, and a bonus for high performance states based on measures of employment, job retention, earnings progression and birth rates for females 15-17. There are also financial penalties if states fail to achieve the required participation rates, with the Block Grant falling by 5 percent for the first failure and a further 2 percentage points for each subsequent failure, and penalties in another 13 cases, including maintaining historic level of state spending, complying with child support enforcement requirements or failure to submit verification reports.

There are also penalties against individuals who refuse to work or engage in ‘work activities’. Aid to that family must be reduced in respect of the work refusal period. A single parent with a child under 6 may not be penalised if she can demonstrate inability to find child care. In the final regulation, the degree of penalty can be made by the state ‘on any reasonable method’ (Schott *et al* 1999).

#### Policies by the States

Many states have set up an extensive array of policies designed to encourage work effort as well as assist families with dependent children who have a range of educational, psychological and addiction problems. Many states took the option of merging their welfare and employment offices, allowing officials to immediately suggest employment options rather than letting single mothers sign on to welfare. There has also been considerable devolution to county and district level. Many innovative policies, in response to local needs and issues, have been developed – in Baltimore for example, single mothers have been offered assistance to repair cars and had child-care arranged so that they can take employment at non-regular hours.

The rapid expansion of the US economy since 1992 and the continuous fall in unemployment rates have resulted in lower case loads than the basis for the original funding of TANF. Case loads dropped by 52 percent between 1994 and 1999, and total federal and state expenditures on cash assistance have fallen from \$23 billion in 1994 to \$12.4 billion in 1999, but federal funding on cash assistance has remained constant at \$16.4 billion (Lazere 2000). Many states have used the additional funds to introduce a range of new programs to help low-income families to obtain employment and remain in

work. Programs which have been developed include transportation, child care, substance abuse programs and services to offset domestic violence. States have not used the legislation for 'a race to the bottom', with lowering of assistance, to prevent inward migration of single mothers.

However, many of the states have unspent TANF funds. Some of this may be from states setting up reserves for when the economy is not so buoyant as states, rather than the federal government, now takes the fiscal risk (and windfalls). Lazere (2000) indicates that while a significant number of states (18) have used all of their funds, a considerable proportion have funds unspent, ranging from 58 percent in Wyoming and 51 percent in West Virginia down to 7 percent in Maryland and 3 percent in Wisconsin. All states achieved the 75 percent maintenance-of-effort requirement.

However, Hernandez (2000) reported that there was considerable switching between funding sources, with states effectively using federal funds for state initiatives. He reports that New York state has taken at least \$1 billion of federal funding under TANF (out of \$6.1 billion) and used it to indirectly finance programs that appeal to middle-class voters and tax cuts. States use federal funding to finance welfare programs they used to offer, and use the released funds to pay for politically popular programs. While this is not illegal, it does point to problems of accountability under TANF regulations. The only accountability mechanisms under PRWORA appear to be output/outcome based (maintaining 75 percent of historic welfare spending, ensuring reduction in welfare rolls etc.).

The other major initiative is the Welfare-to-Work fund, which requires matching state finance. The funds are to be used to move individuals into permanent unsubsidised employment. The list of activities is similar to the TANF work activities list, but excludes vocational education and schooling. It thus covers community service, job creation, on-the-job training, job vouchers and job retention support services. Welfare-to-work funds are classified as non-assistance and do not count towards the 60 month time limit.

## The DPB Review

By the mid-1980s in New Zealand, the increased expenditure and numbers on the DPB, recognition of a growing disparity between married and single mother employment

rates and the development of full-time child care facilities led to a reappraisal of policy and its objectives. Increased work expectations replaced child-minding objectives., Views that single mothers were living adequately if modestly on the DPB, and had lost the motivation to work, were taking priority among policy makers. Policy for the DPB was complicated by the existence of a growing number of unemployed beneficiaries (mainly male). This group took priority in terms of enforcing employment obligations and job search.

Policy makers in New Zealand had looked at the cost-effectiveness evaluations of the welfare-to-work programs undertaken after the Family Support Act 1988, and more recently at the 'success' of the initial AFDC waivers, especially those initiated in Wisconsin. An attempt to sell these policies to the New Zealand public through a *Beyond Dependency* conference (Social Policy Journal of New Zealand 1998) failed, partly because of the high cost compared to an academic/community group *Beyond Poverty* conference, and partly because those coming from the US to sell the US policies such as Larry Mead (1996) were known for their strong views on single mothers.

The initial work-for-welfare programs dealt with all beneficiaries, and were designed to improve the employment prospects of both unemployed youth and single mothers. They were not successful, partly due to adverse macroeconomic conditions, with few additional jobs created and considerable job displacement (Bertram 1988). The Compass program, from 1993, focused on single mothers, using individualised case-management in an attempt to cover the range of problems in accessing employment. The aim was to reduce 'cycles of dependency', with clients being placed in direct competition with others entering the labour market. Initial evaluations of the scheme have shown it to be cost-effective (Rochford 1997).

In 1997-98 a review of the Domestic Purposes Benefit was undertaken. Its objective was to increase work attachment of single mothers through the redesign of the benefit parameters and entitlement conditions. Among the measures undertaken have been:

- A merger of the Income Support division of the Department of Social Welfare and the Employment Service of the Department of Labour into a new department, Work and Income New Zealand (WINZ). Benefit payments, work force encouragement and

work tests were now combined, with case managers being better placed to marry benefit rights with work expectations.

- An increase in the income exemption, or earnings disregard, before benefits are abated against market earnings. The structure of the exemption, with an \$80 per week disregard and abatement of 30 percent (plus tax on earnings of 15 or 21 percent) up to \$180, and then 70 percent abatement, was designed to encourage part-time work. In 1998, almost a quarter of those on the DPB reported extra income, with 13 percent receiving more than \$80 per week. Gradual abatement of benefits with additional income reduces labour force disincentive effects but increase the number of recipients of the benefit.
- There was a change in the work expectations for single mothers, with a full-time work test for those with the youngest child over 14 (previously they had been subject to a part-time work test), part-time work test for those with children aged 6-13 (previously they had to attend an annual employment-suitability interview), and a new mandatory annual interview for those with a child under 6.
- The work test is the same as that applied for the unemployment benefit. All recipients are to be work-ready, and after six months non-employment, be willing to undertake community work for at least 20-25 hours per week. The DPB became part of the Community Wage program whereby long-term beneficiaries (duration over 6 months) were meant to participate in community work projects, with sanctions of a reduction or abolition of the benefit for non-compliance. Very few organisations have joined the scheme, because training and mandatory reporting fall on the employer, the jobs are of marginal value to the employer or replace volunteers (Higgins 1999)<sup>9</sup>.
- In response to beneficiaries taking reasonable steps to find employment, the State took the reciprocal obligation of reducing barriers to finding and maintaining employment. Included in this package was an after-school care subsidy, an improved training incentives allowance, continued support once people had moved into employment and a short-term sick leave program designed to cover situations with sick children.

The initial results of the change in policy emphasis seem to be moving towards the policy objectives. There has been a 4.3 percent fall in numbers on the DPB, and



increase in the proportion exiting from the DPB to work from 18 percent in 1995 to 27.3 percent in 1999, an increase in the proportion declaring part-time employment from 15.9 percent in 1995 to 21.6 percent in 1999, a reduction in inflows onto the benefit (though outflows, especially to other benefits, have also fallen), with the largest fall being for those with young children (Ministry of Social Policy 1999). No analysis has been done as to whether these changes are a direct result of the policy change or due to changes in the macro-economy or attitudinal effects. All the same the Ministry of Social Policy (1999) argued that more dramatic results will require more significant investments to offset the barriers to employment, especially in child care and transport costs.

### Summary

Both countries have a benefit dedicated to single parents which has gradually swung from a view that the prime role for single mothers is the nurture and care of dependent children to one where employment is the preferred option. The change in focus came earlier in the US, primarily because the provision of assistance and growth in welfare expenditures and usage came earlier. At present, New Zealand policy seems to be following 10-15 years behind that of the US.

There are significant differences. Single mother policy in New Zealand is complicated by the presence of unemployed beneficiaries who have a greater work priority. In the US, the increasing degree of devolution to the states and the range of initiatives they are undertaking to reduce welfare usage is making evaluation of TANF difficult and hard to emulate. New Zealand has rejected the personal responsibilities side of PRWORA, and seems to place greater emphasis on the well-being of children brought up by single parents. Both countries have recognised that welfare benefits and work are insufficient by themselves for many families caught in a potential cycle of dependency, and are instituting a range of social work interventions for at-risk families. The differences in policy objectives between the countries goes along way towards explaining the difference trends in case loads and welfare expenditures and employment rates for single mothers.

## DEMOGRAPHY OF SINGLE PARENT FAMILIES

A major factor affecting the dramatic change in policy towards single parents in both countries has been the continued growth in the proportion of families with dependent children headed by single parents. This section looks at that growth and some of the demographic and social factors which lie behind the growth. Many of the factors also affect the employability of single parents and the adequacy of earnings from that employment.

The growth in the share of single parent families is clearly shown in Chart 2. The US has always had the largest share of single parent families, but the growth rate over the 25 years from 1970 has been fastest in New Zealand. By 1995/96, 31.6 percent of families with dependent children under 18 years were single parent families in the US, and 26.7 percent in New Zealand. As noted above, the US figure is inflated by about 13 percent due to the proportion of single-mother families living with an unrelated male (Primus *et al* 1999). Widening the net of countries to include the Anglo-Scandinavian comparison, one sees that the UK has also had a fast rate of growth, especially between 1985 and 1995. However, Norway and Denmark actually had a fall in the share of single parent families, while Sweden stabilised its share. Part of this fall is due to favourable demographics, with lower numbers in the age groups with the highest incidence of single parenthood.

The growth of single parenthood comes either from death of one partner, separation or divorce or never married mothers. Not all divorces and separations contain children, and cohabitation means that not all children born outside marriage lead to single parenting. New Zealand and the USA have very similar structures of single motherhood, as the first three rows of Table 4 show. Improvements in health care, and reductions in industrial accidents, have reduced the likelihood of being a widow, and it is now a minor cause of single parenting. The declining share of widowhood over time is shown in Chart 3, and is largely a product of the growth in the other forms of single parenting.

Divorce is almost twice as likely in the US as New Zealand (Table 4), resulting in 38 percent of single parent cases, and 19 percent due to separations. New Zealand has almost the reverse pattern, with 30 percent of single parent cases due to separations and 25 percent divorces. In both countries, easing of divorce laws during the 1970s raised

divorce rates, but since then divorce rates have stabilised (on an annual basis, the divorce rate is far less stable) (Chart 4). The share of separated and divorced single parents fell during the 1970s and 1980s in both countries, offset by a rising trend of never-married single mothers. Since 1990, this trend has continued in New Zealand, but the growth in never-married share in the US ceased (Chart 3). The New Zealand cohabitation rate is double that of the US, shown in Table 4 by the higher share of births outside marriage. A significant proportion of the never-married rate in New Zealand is a result of separation from cohabiting couples - more equivalent to separation/divorce.

**Table 4**  
**Demographic and Social Characteristics of Single Parent Families,**  
**United States and New Zealand, Circa 1992**

<b>Demographic Characteristic</b>	<b>United States</b>	<b>New Zealand</b>
Type of single mother - Never Married	37	38
- Separated and Divorced	57	55
- Widowed	6	8
Divorce rate (per 1000 married couples)	21	12
Teenage Fertility (live births per 1000)	56	33
Births outside marriage (% of births)	30	41
Youngest child under 5 (% 1 parent family)	42	42
Single mother under 25 (% 1 parent family)	13	16
One dependent child (% 1 parent family)	47	53
Not complete secondary school (%)	62	73
Sharing households (%)	22	13
Ethnic composition (% non-white)	33.7	48.0
Ethnic Incidence: African-American/Maori	64.2	43.0
Hispanic / Pacific Island	26.7	28.9
White	25.9	17.5
In rented accommodation (%)	56	51
Receiving welfare payments (%)	43.1	84

Source: Bradshaw *et al* 1996, author calculations

The high never-married rate of almost 40 percent of single mothers is significant for policy as they tend to be younger, more likely to have young children and have less education. Only Norway and Sweden have higher proportions of never married mothers, and they tend to be older. In both New Zealand and the US, a major reason for the high

single mother rate is the prevalence of never-married mothers - if the US had the same never-married rate as Australia, its overall single parent rate would fall to 21 percent, and New Zealand to 19%.

Teenage fertility rates are far higher in the US (Table 4). Ex-nuptial birth rates rose during the 1960s as the post-war baby boom generation reached adolescence, a rise in pre-marital sex, poor access to birth control and a decline in marriage due to pregnancy (Chart 5) (Goodger 1998). However, even though ex-nuptial birth rates flattened off in the 1980s due to better contraception, the ex-nuptial birth ratio (rate per 1000 live births) continued to rise due to a more rapid decline in couple births. Ex-nuptial births rose during the 1990s, mainly due to a growth in cohabitation, often prior to marriage.

Better contraception lies behind the decline in teenage fertility during the 1970s (Chart 6). In the US, this decline had stopped by 1978, and even rose again during the early 1990s, whereas New Zealand and most OECD countries had another ten years of decline. Even then New Zealand's fertility rate exceeds that of most countries in the OECD who all had continuous falls in fertility during the 1970s when more reliable contraceptive devices became available for females.

Singh and Darroch (2000) indicate that the high teenage fertility rate in the US applies to both 15-17 year olds as well as 18-19 year olds. Although the abortion rate is high for both age groups, the abortion ratio (proportion of pregnancies being terminated) is low by international standards, resulting in a high teenage birth rate. Between 1990 and 1995 there was a substantial fall in the teenage pregnancy rate in the US (Chart 7), but as it was offset by an almost equal fall in the abortion rate, teenage birth rates fell only slightly. New Zealand, however, had an increase in the teenage pregnancy rate. This is largely explained by a change in the ethnic composition of the population, with a greater proportion of Maori and Pacific Islander populations in this age group. These ethnic groups have higher fertility overall as well as at younger age cohorts. There was also a slightly greater abortion rate, giving a slight decrease in the birth rate. The Scandinavian countries all had relatively low pregnancy rates, but very high abortion ratios, giving very low teenage birth rates.

Despite the higher teenage fertility, the US has a slightly lower proportion of mothers under 25 (Table 4), but the same proportion with a child under five - both factors

which the OECD studies have found to be significant explanators of labour force participation. The proportion of single parent families with one child is comparable to the OECD average, but both countries have an above average number of families with 3 or more children. Larger family size makes child care more difficult and increases the level of domestic responsibility. Both countries had a very high proportion of single mothers who did not complete secondary school, implying a lack of labour market skills.

The one factor which stands out in Table 4 is the strong ethnic impact of single parenting in both countries. In New Zealand, 48 percent of single parents are non-white, and a third in the US. Chart 8 shows how the share of Pakeha (European) single parents has fallen in New Zealand, offset by a rise in Maori and Pacific Islander groups (and more recently, Asiatic immigrants). Maori and Pacific Island families have higher fertility rates and a younger age structure. In the US, the racial mix of single parents has not significantly altered during the past 20 years, although there has been some growth in the Hispanic share.

In African-American families, over 64 percent are headed by a single parent and 43 percent of Maori families (Table 4). Whilst it is tempting to argue that extended family structures in these ethnic groups may make this high incidence less of a concern for employment and child-minding, only 22 percent of US single parents share and 13 percent in New Zealand. Before any conclusion can be made that single parenting is an ethnic/racial issue in both countries, one would need to standardise for other factors resulting in high single parenthood – age structure (both Maori and African-Americans are younger on average); income levels and unemployment rates (both groups have high unemployment and relatively low average incomes); and education levels.

The incidence for the two groups who emigrated for employment and standard of living reasons - Hispanics in the US and Pacific Island peoples in New Zealand - is above average. The incidence for 'White' people in the US is also very high, and still above that of any other OECD country, whereas the New Zealand 'white' (Pakeha in local terms) is not really different from the other OECD countries. In all ethnic groups, there has been a rise in the incidence of single parenting (Chart 9).

The final two rows of Table 4 are non-demographic. Over half of single parent families are in rented accommodation, far greater than the average in both countries.

Rented accommodation tends to lack security of tenure, is often of poor quality or of high cost. Low cost accommodation tends to be removed from areas of employment, requiring high transport costs to obtain and maintain employment. While US low cost rentals are often inner city, in dilapidated older areas of towns, with low skill employment moving to the suburbs (Wilson 1998), New Zealand's inner city areas have been gentrified, with employment in the city and low cost rent either in poor outer suburbs or in rural areas.

Policies in regard to housing costs can also have a significant influence on standards of living. Bradshaw *et al* (1996) indicates how housing costs represent a major item of regular expenditure. Both New Zealand and the US provide housing subsidies to offset the cost of housing, with these subsidies being related to income levels. Thus abatement of the subsidies, especially when combined with other targeted assistance, may have a significant impact on the decision to work or to increase work effort.

In New Zealand, the housing assistance is available to all forms of tenure, and is based on a combination of income level and housing costs (with an allowance for mortgage repayment). The subsidy is equal to 70 percent of the difference between rent levels and a quarter of income, subject to a ceiling. It is paid in cash, and not tied to housing expenditure (except for beneficiaries who are in accommodation rented from the state, where the net rent is subtracted from the benefit at source). Some 84 percent of single parent beneficiaries receive this accommodation supplement. Stephens *et al* (2000) shows that poverty rates for single parents increases substantially after adjusting the poverty measure for housing costs. Despite the housing subsidy, single parents pay, on average, higher (gross) housing costs than the rest of the population.

In the US, assistance tends to be provided at the State level. There are several programs operated at federal level to assist housing needs of low-income householders. As expenditure on these has been capped, not all households who qualify for assistance can receive it. Rental assistance reduce tenants' rent payments to 30 percent of their income, after a range of deductions, with the Government paying the remainder of the rent. Bane and Ellwood (1994) claim that about a quarter of welfare recipients receive housing benefits, either through living in subsidised public housing or through housing assistance.

Based on Committee on Ways and Means (1998) data, some 43.1 percent of single mothers were on welfare in 1996, down from 49.3 percent in 1992. As expected with the parameters of AFDC, only 2.2 percent of the caseload was in full-time work, and a very low 4.2 percent declaring part-time work with receipt of AFDC. Dickert *et al* (1998) argue that 76 percent of eligible single-parent families receive AFDC. In New Zealand 84 percent of single mothers receive a benefit (Goodger 1998), many of whom receive assistance whilst in part time work. The take-up rate of the DPB is very high - Goodger (1998) calculated that more single parents receive benefits (including a widows and unemployment benefit) than exist on the basis of a census population count<sup>10</sup>.

### Summary

There are great similarities in the demographic structure of single parents between the US and New Zealand. In both countries, over a quarter of all families with dependent children are headed by a single parent, normally the mother. There is a strong ethnic bias to single parenting, and a growth in the proportion of never-married single mothers and a decline in the proportion of widows. Demographic factors cannot explain the different outcomes in terms of fiscal expenditure, employment levels or incidence of poverty between the two countries. The ethnic incidence and composition however partly explains why the two countries have a high incidence of single parenting. All the same, the incidence of single parenting among whites in the US still exceeds that of any other country, while the New Zealand white incidence is typical of other Anglo and Scandinavian countries.

## WELFARE POLICY AND POVERTY ALLEVIATION

The major rationale behind the provision of welfare benefits to single parents was to alleviate the prevalence of poverty among single parents. Both countries had found that reliance upon charitable aid, child maintenance from fathers and extended family support had been insufficient to remove poverty and the stigma of being brought up in a single mother household (Crenson 1998, McClure 1998). In many instances, the threat of poverty resulted in children being fostered or adopted out, or being placed in orphanages, with adverse effects on child development. The provision of AFDC and the DPB and Widows Benefit was designed to provide single mothers with an income adequate for them to look after their child without the threat of poverty.

The data in the final column of Table 1 indicated that the poverty alleviation objective had not been achieved, especially in the US where three-fifths of children in households headed by a single mother were below the LIS poverty measure of 50 percent of median household equivalent disposable income. One-fifth of New Zealand children in single parent households were poor after the operation of the tax and benefit system. In both countries the poverty rate for single mother households greatly exceeds that of children in two-parent households, with the poverty incidence for all children exceeding that of other family types, including the elderly (Table 5).

This relatively high incidence of poverty among children in the US also exists at the 60 percent of median equivalent household disposable income poverty line. However, there is a significant jump in the incidence of poverty in New Zealand, especially for children in single mother households. Stephens *et al* (2000) show that many New Zealand benefit levels are in between the 50 and 60 percent thresholds, explaining the large increase in poverty for those dependent upon benefits, including the elderly. The US benefit level, however, is substantially below even the US poverty measure, which is some 35 percent below the LIS international standard (Citro and Michael 1995).

There are potentially two reasons for the high poverty incidence for single mothers: first, a high incidence of low pay, and second, a welfare system which does not provide a benefit sufficient to eliminate poverty for those not in employment. The second half of Table 5 investigates this.



**Table 5**  
**Incidence of Poverty Among Children, USA and New Zealand, circa 1996**

<b>Family Type</b>	<b>United States</b>	<b>New Zealand</b>
<b>50% Median Disposable Income</b>	<b>%</b>	<b>%</b>
All children	26.3	7.4
Children with Single Mothers	59.6	19.5
Children with 2 Parents	16.7	5.1
Elderly	14.9	1.4
All Family Types	20.7	4.7
<b>60% Median Disposable Income</b>		
All children	34.4	20.4
Children with Single Mother		50.9
Children with 2 Parents		14.8
Elderly		20.2
<b>All Children</b>	<b>US Poverty Measure</b>	<b>50% Median Inc NZ</b>
Market poverty rate	23.6	26.0
Disposable Income poverty rate	16.1	7.4
Poverty Reduction Eff - Incidence	31.8	71.5
- Poverty Gap	61.8	86.6
<b>Children-Single Mothers</b>		
Market poverty rate		77.7
Disposable income poverty rate	46.1	13.2
Poverty Reduction Effectiveness		83.5
<b>Work Force Incidence, Single Mother</b>		
In Work Full-time	11.7	2.7
Beneficiary	59.2	(19.2)

Source: Committee of Ways and Means (1998), Stephens *et al* (2000)

Using the US poverty definition, based on market income, some 23.6 percent of all children (in both single and two parent households) were poor, with this reducing to 16.1 percent after the operation of the tax and benefit system (excluding medical assistance). The effectiveness of the tax and transfer system in reducing poverty is 31.8 percent<sup>11</sup>. In New Zealand, at the more generous 50 percent poverty threshold, almost the same number of children were poor based on market income, however, the number poor after the operation of the tax and transfer system was much lower at 7.4 percent, indicating a far greater poverty reduction efficiency in New Zealand, due to more generous assistance to families with dependent children<sup>12</sup>.

The market poverty rate for all children in the US, at the 50 percent threshold, would probably be far higher than the New Zealand 26 percent. Given the overall greater employment level of females in the US, especially single mothers, the implication is a far

greater incidence of low pay in the US. Whiteford (1997) provides confirmation, showing that the US has a far greater incidence of low pay and greater earnings inequality among females than New Zealand.

When attention is placed on children in single parent families, the disposable income poverty rate in the US is three and a half times as great as the New Zealand estimate. The poverty rate based on market income in New Zealand is a very high 77 percent, indicating the lack of employment among single mothers (unfortunately there is no comparable estimate for the US). Although there is a very high poverty reduction effectiveness from the operation of the transfer system, the lack of market income still provides an above poverty incidence. Jensen and Eggebeen (1994) claim that welfare payments in the US in 1989 only brought 29.5 percent of rural and 37.6 percent of urban children who were 50 percent below the poverty line, on a pre-tax income basis, above the US poverty line.

The final section compares poverty based on work force participation for single mothers. Again the figures are not directly comparable due to the different poverty measures. But the results show that full-time work is the best solution to poverty. The US has a relatively high poverty rate for those in full-time work, and indication of the low pay and earnings inequality. The New Zealand figures indicate that most single mother families, if in full-time work, avoid poverty. The beneficiary figure is estimated, as the data source is too small to provide reliable estimates.

## WELFARE POLICY AND CASELOAD TRENDS

This section investigates the factors leading to changes in welfare caseload, with special attention given to the impact of policy on both the incidence of single parenting as well as caseloads. In the US, a substantial amount of research has been undertaken on trends in caseloads and the incentive effects of the welfare system (see Mayer 1999 for a review), but very little research has been done in New Zealand, and then mainly on the unemployment benefit rather than the DPB (Stephens 1999, Maloney 1997).

Trends in case loads and expenditure are a function of the demographic factors affecting single parenting, the proportion of those single parents eligible to receive a welfare benefit due to the entitlement rules, the proportion of those eligible who take-up the benefit, the level of the benefit plus any incentive effects from provision of the benefit or its level and eligibility parameters. Macro-economic variables, such as economic growth rates and unemployment levels, influence real earnings levels and job opportunities, affecting the proportion of those eligible to take-up a welfare benefit. Policy changes, partly in reaction to caseload and expenditure level trends, operate mainly through changes in entitlement rules or benefit levels, but may also influence social attitudes. Social norms, values and cultural attitudes affect all of these variables, but are very difficult to measure.

Moffit (1999) argues that in the US, demographic influences, particularly growth in the proportion of single mother families, have been the main contributor to long-term trends in caseloads and real welfare expenditure (AFDC, food stamps and Medicaid) per head of population. In the short-run, changing macro-economic conditions have meant that fluctuations in participation rates have been equally important. Policy effects, which the above analysis indicated as being significant, were not considered important. In New Zealand, demographic factors also dominate the long-term trend, though increasing take-up rates among those eligible has also increased caseloads along with adverse macroeconomic conditions reducing employment rates for single parents. Policy effects, especially the 1991 benefit cuts, also had an important impact on expenditure trends (Chart 1 and 11).

The significant differences in trends in real expenditure and case loads on AFDC/TANF compared to the DPB in New Zealand since 1980 were shown in Chart 1. There

was a continuous growth in both numbers and expenditure in New Zealand, although there was a small reduction in expenditure and a flattening off of numbers in 1991. On the other hand, expenditures and numbers on AFDC remained constant between 1980 and 1989, with a small increase to 1994, and thereafter a fall. By 1999, numbers and expenditure were substantially below the 1980 level, with a further 11 percent fall in numbers on TANF in 1999. By contrast, 1999 saw the first fall in numbers on the DPB, with a 2.6 percent cut, but total numbers were 300 percent higher than 1980.

Starting at 1980 and concentrating just on AFDC/TANF expenditure distorts the US picture, for three reasons:

1. By 1980 the major growth in case load had already occurred. In 1970, the average number of families enrolled in AFDC was 1.9 million, by 1975, 3.3 million and 1980 3.6 million, and remained at roughly that level until 1989. An increase in number of single parent families was the major contributor. There was also an increase in the take-up rate of the benefit, as stigma related to the receipt of benefits declined (Fraker and Moffitt 1988). This rapid growth in case load led to the revision of US policy, away from child-rearing to workforce activity, and to fiscal savings rather than poverty alleviation.
2. Since 1980, the major growth areas in expenditure has been in programs which relate to AFDC - Food Stamps, Medicaid and EITC –rather than AFDC. Chart 10 shows the relative growth of expenditure on Food Stamps compared to AFDC, with extremely rapid growth in EITC expenditure during the 1990s. Growth in Medicaid expenditure has been far more rapid, with total expenditure now exceeding that of all the other means-tested programs. These programs are politically more acceptable, encouraging ‘desirable’ consumption, while EITC provides appropriate work incentives. They cover a wider audience than just single mothers, so trends are influenced by the wider eligibility criteria. There has been a substantial growth in the number of participants in the Food Stamp program, rising from 16 million in 1975 to 25.5 million in 1996, partly due to population growth, but also a higher proportion of the population are eligible to receive food stamps. As part of PRWORA, eligibility for Food Stamps and Medicaid was relaxed as people entered the work force. However, the operation of

TANF by state offices has often led to a decoupling of eligibility for the different programs which has lowered the take-up rate.

3. Many policies to contain expenditure and growth in take-up of AFDC had been already enacted. Average benefit levels in the AFDC program fell substantially between 1970 and 1980, with the average state real benefit level in 1980 being 40 percent lower than 1970 (Chart 11). Although AFDC expenditure fell, standards of living for welfare recipients were not as adversely affected due to the interaction between the AFDC and Food Stamp programs: AFDC benefits count as income for Food Stamps, so a cut in AFDC benefits increases Food Stamp payments – Mayer (1999) reports that average AFDC benefits per family declined by 42.2 percent between 1972 and 1992, but the real value of food stamps increased by 37.6 percent, giving a combined fall of 26.2 percent in the combined food stamps plus AFDC benefit level.

### The Macro-Economy

The level of macro-economic activity influences both the availability of employment opportunities for single mothers moving into the labour market as well as affecting the ability to finance welfare benefits from tax revenue. As single mothers often reside in specific localities where employment trends may differ from the national trend, or have a different mix of skill and work experience than the national average, local employment effects also have to be considered. Chart 12 shows the national trends from 1980 in the growth rate of real GDP and the unemployment rate in both countries.

In New Zealand, the 1980s saw a period of substantial economic reform, with the removal of most import protection and considerable deregulation of most sectors of the economy. Exchange rate over-shooting and poor reform sequencing pushed the economy into recession, resulting in low and sometime negative economic growth and rapidly increasing unemployment, especially for the unskilled, youth and Maori (Dalziel 1999). Exacerbating the increase in unemployment during the 1980s was a demographic blip of 15-19 year olds: numbers in this age group, who traditionally have a high unemployment rate (as well as single parenting) increased by 17.5 percent. It is this economic recession which is a significant contributor to the fall in employment rates for single mothers

between 1986 and 1991 (Chart 13). The fall was particularly large for full-time workers among Maori and Pacific Islanders, and relatively small for Europeans.

The 1991 benefit cuts exacerbated an economic recession. The subsequent recovery lowered the level of unemployment and was a significant factor behind the increase in employment of single mothers to 1996. The increase was largest for Maori and Pacific Island ethnic groups, and both part-time and full-time employment increased. Employment of partnered mothers also rose, from 58 percent to 65 percent over the 5 year period, again indicating the impact of economic activity on employment rates.

In the US, case loads have remained roughly constant for most of the 20 year period, despite increasing numbers of single mothers. Employment rates for single mothers in the US has always been high, but have increased since 1981, especially part-time employment (Chart 13). Despite the economic recession of 1991, employment levels actually increased in 1991. Case loads also rose, indicating that the demographic factors of more single mothers outweighed the employment effect. The continued economic expansion since 1992 has resulted in an increase in employment rates of 66 percent in 1996, and 68 percent in 1998.

Mayer (1999) reports on several studies using cross-section time series data, by state, to estimate caseload effects. She concludes that these studies find that increases in the unemployment rate (of 1 percentage point) led to a much greater increase in AFDC caseloads of 3-5.9 percent. Use of the unemployment rate may not pick up the dynamics of the labour market, with declines in low-skilled manufacturing jobs during the 1980s, which welfare recipients often move into, while there was overall employment growth. This may explain Moffitt's (1999) finding that the cyclical sensitivity of the AFDC caseload has increased through time.

The Council of Economic Advisers (2000) made comparisons of changes in caseloads between 1993-96 when waivers to AFDC were being introduced, and when the economy was in a recovery phase with strong economic growth, and 1996-1999, when PRWORA was operating alongside a continued strong economy. For the period 1993-96 they argue that the improved labour market was the main cause of decline in welfare caseloads, accounting for between 26-36 percent of the decline. However, the improved labour market only accounted for 8-10 percent in the later period. In the state of

Maryland, where there has been an about average case load drop, and an above average fall in unemployment rate, RESI (1999) has argued that the majority of the caseload decline is due to welfare reform, and virtually none to the improved economy. However, their model does not seem to specify the demand for labour aspect of the economy, and thus its results must be subject to considerable error.

The Council found that policy impacts were very important. Lower cash welfare benefits were significant in the 1993-96 period, accounting for 6-22 percent of caseload decline, but only 1-5 percent in the later period. Program reform, which refers to waivers in the 1993-96 period, and PRWORA in the 1996-99 period, accounted for 12-15 percent from waivers and 33 percent from PRWORA. Reductions in the minimum wage between 1993 and 1996 increased caseload by 10 percent, as work was made less attractive, while the rise in the minimum wage in the 1996-99 period resulted in a 10 percent fall in caseload.

Other studies have picked up the effect of state waivers to the AFDC program parameters, and these argue that waivers have decreased caseloads by between 5.1 and 15 percent (Mayer 1999). However, there are significant difficulties in measuring the impact of waivers as they may be anticipated or their effects may be delayed. Moffitt (1999) argued that waivers have the biggest influence on women with relatively little schooling, reducing AFDC participation and increasing work effort, but with no significant improvement in earnings.

As noted above, neighbourhood and individual skill effects need to be taken into consideration. In both countries, during the 1980s there was a considerable retrenchment in the manufacturing sector, particularly in unskilled and semi-skilled jobs. New job growth has either been high skilled technology based jobs or unskilled employment in the service sector, often with non-standard hours of work. The new employment has also been in different locales to the traditional manufacturing employment, providing transportation difficulties. In New Zealand, the new jobs are in the city centres, while single mothers tend to reside in the cheaper, outlying suburbs. Waldegrave and Stuart (1997) indicated that many single mothers, after the benefit cuts and increases in net state rental costs, moved into rural areas. They could achieve a modest standard of living, but with no real prospect of future employment. In the US, as the Baltimore example shows,

the new jobs are in the suburbs, but the single mothers are located in the city centres. This dislocation may well limit the impact of macro-economic policy to increase employment in the absence of offsetting policy such as transportation facilities and retraining.

### Incentive Effects in the Benefit System

Any welfare benefit changes economic incentives in the choice between paid employment, non-paid work at home and leisure. The traditional economic model based on a work-leisure choice, or the job-search model, does not capture the reality of the choices faced by a single mother (or any parent faced with the dilemma of child-rearing or employment) - leisure is not the option to work. However, this may just change the nature of the choice faced by single mothers, and is a significant factor lying behind the high labour supply elasticities found in the empirical literature for women. An alternative theory, based on institutional and structural features of the labour market, does not give firm predictions to the impact of the benefit system on the work/welfare choice (Wilson 1996).

It should be noted that incentive effects may be dominated by entitlement rules for receipt of benefits. Entitlement rules, such as a requirement for work activity or a time limit on benefit receipt place a constraint upon behaviour. There are two parts to the work-leisure and job search models<sup>13</sup>. First, there is the decision to enter the labour market based on the relationship between the benefit level and earnings when in employment (the benefit replacement rate). An increase in the benefit level relative to earnings should increase the attractiveness of being on the benefit relative to work effort. The magnitude of the effect depends upon empirical measurement. Consideration must also be given to the reservation wage – a wage below which the individual will not work. Each person's reservation wage is influenced by the level of their past earnings and the structure of wages, especially in the bottom quintile, including the minimum wage.

Second, there is a decision about the level of work effort, or whether to increase/reduce work levels, based on the increase in net income from the additional work (the effective marginal tax rate - EMTR). Higher EMTRs, especially those 50-70 percent plus, are likely to make additional work effort not worthwhile. High EMTRs are likely to occur from either a deliberate attempt to abate benefits quickly with additional



earnings or the interaction of different, uncoordinated welfare programmes, each with their own criteria for abatement with earnings.

The data in Table 6 show some of the incentive effects incorporated into the US and New Zealand benefit systems for single mothers. Most of the US data refers to the state of Pennsylvania which the Committee of Ways and Means (1998) regards as a typical US state, with payments close to the median state. There is a significant range of payment levels between the states, lower in the south and generally higher in the north-east. In 1996, for a single mother with one child, AFDC/TANF payments in 1996 ranged from \$60 per month in Mississippi and \$72 in Louisiana to \$167 in Maryland, \$215 in Pennsylvania, \$352 in New York city and \$438 in Vermont. It was feared that PRWORA would result in a race to the bottom a general lowering of benefit levels. While some states have not adjusted benefit levels fully for inflation, in general benefit levels have been maintained and even increased, due to the surplus of funds that the states have resulting from the large fall in case loads.

As explained above, the incorporation of Food Stamp benefits offsets some of the discrepancy in benefit levels between the states. When Food Stamps are added, the disposable income of a single parent with one child was \$577 in New York and \$385 in Pennsylvania. Using purchasing power parities to convert New Zealand benefit levels to US currency<sup>14</sup>, the New Zealand benefit level is less than that of New York, but substantially above that of Pennsylvania.

The absolute income level indicate that the New Zealand system is, on average, more generous than that of the US. However, labour market decisions are based on a comparison of earnings in work compared to the level of the benefit, which requires information on the level and structure of earnings in both countries. Whiteford (1997) indicates that the US has a very high incidence of low pay with over 32 percent receiving less than two-thirds of median earnings in that country, compared to just over 20 percent in New Zealand. This low pay is also age related, with over 60 percent of under 25s in the US receiving low pay, compared to 40 percent in New Zealand. The gap between the lowest decile and the median is far wider in the US, though by international standards, New Zealand has a substantial gap. As Whiteford (1997) comments, this earnings data indicates that any given absolute benefit level would produce a higher replacement rate in

the US than New Zealand. Adjustment would have to be made for the impact of taxes, in-work benefits and other services.

**Table 6**  
**Incentive Structures in the Welfare Systems, USA and New Zealand**  
circa 1995 (US - Pennsylvania unless otherwise mentioned)

Measure	United States	New Zealand
<b>Disposable Income Single parent and 1 child, US\$ per month, ppp</b>		
Not Earning - New York / Wellington	577	526
- Pennsylvania	385	
<b>Benefit replacement rate Single Parent 1 child, all assistance</b>		
- 0.5 av. male earnings	58	71
- 1.0 av. male earnings	42	49
<b>Average Effective Tax rate Single Parent, one child aged 7</b>		
- not working to 0.5 av. male earnings	55	72
- 0.5 to average male earnings	61	54
<b>% change disposable income on becoming single parent</b>		
From single person on benefit	58	115
From single person on 0.5 av. male earnings	-22	-12
From unemployed couple separating- father	17	-11
- mother and child	36	40
From couple - 0.5 av. male earnings-father	76	78
- mother and child	1	7
-child 3, not working to 0.5 av. male earn	68	8

Source: adapted from Bradshaw *et al* 1996, Whiteford (1997), Committee on Ways and Means (1998) and author calculations.

Table 6 shows the level of the benefit replacement rate for a single person with a child aged 7, thereby omitting child-care costs. The benefit replacement is calculated by comparing the net benefit (including food stamps in the US) that person would receive if solely dependent upon a benefit compared to the level of disposable income they would receive if half average and average male earnings. Half average male earnings is about 70 percent of average female earnings in both countries, and is thus

reasonably representative of jobs that single mothers would be expected to receive if they enter full-time employment.

At half average male earnings, the New Zealand replacement rate of 71 percent significantly exceeds that of the US (58 percent). At average earnings the differential in replacement rates is less, but still positive. New Zealand has a high personal income tax rate at low to moderate earnings (Stephens 1993), and the earnings level is too high for in-work assistance. In the US, in-work assistance and tax expenditures reduce the US tax rate, increasing in-work take home pay relative to the benefit level. This lowers the differential with net earnings in New Zealand. It is tempting to use this results to argue that incentives are important – the employment rate differential is explained.

However, when a wider comparison is made of OECD countries, it was found that there was little connection between the level of benefit, as measured by the benefit replacement rate, and proportion of single parents receiving welfare payments. Sweden had high benefit levels, but also high employment rate of 70 percent, while Germany had a comparable replacement rate but only 40 percent employment. New Zealand and Japan had roughly comparable replacement rates, but Japan has an employment level of 87 percent and New Zealand, in 1991, 27 percent. Employment levels in the US are marginally below those of Sweden and Norway, but the benefit replacement rate is less than half. As Bradshaw *et al* (1996, p.71) conclude:

‘the pattern of financial incentives is not a sufficient explanation for variations in the labour supply of lone mothers. There appears to be no simple relationship between replacement rates and the proportion of lone parents working outside the house, nor is there a relationship between marginal tax rates and the proportion working full-time.’

The average effective tax rate (AETR) estimates the impact on net disposable income of moving into the work force – from no earnings to half average male earnings, and from 0.5 to average male earnings. The calculations are made for a single parent with one child aged 7, and the former calculation is also made for a single mother with a child aged three. These average effective tax rates are considered more realistic options facing a single mother than the usual EMTR calculation based on a small increment of earnings. The AETR incorporates the impact of withdrawal of benefit with earnings, any positive

tax effects, the abatement of other assistance such as child care allowances and food stamps with earnings, but not the loss of Medicaid or housing assistance.

For a single parent with a seven year old, the AETR in New Zealand for the move into the work force at half average earnings is far higher, reflecting the much higher replacement rate. From half-to-average earnings, the AETR is higher in the US, a consequence of the continued presence of EITC at that income range, and its abatement with earnings. The AETR is higher for a single parent with a three year old. The impact is due to child care: the single mother in work is assumed to pay for child-care while the mother not earning does not use paid care. Net child care costs are slightly higher in the US than New Zealand. In both countries a recognition of the importance of child-care, including after-school care costs on the decision to enter and remain in work has been recognised with the provision of additional assistance to offset these costs. When compared with the Scandinavian countries, net child-care costs are still very high.

Chart 14 depicts the same type of information of moving into the work force, but for a single parent with two children, and concentrating on the net benefit which is paid as a percentage of average earnings in both countries. The chart shows the much higher net benefit in new Zealand when there is no earnings. In both countries there is some gradual abatement of the net benefit as single mothers take on part-time earnings. At only 15 percent of average earnings, the US benefit has been cut substantially, but this fall stabilises as the impact of EITC affects disposable income (Chart 15). The real fall off in net benefit occurs at about half average earnings, and from 60 percent of average earnings, single mothers are net tax payers. In New Zealand, the high EMTR cut in at less than 30 percent of average earnings, but because the net benefit is that much higher, positive tax payments do not occur until 90 percent of average earnings (Chart 16).

During the 1990s, both countries witnessed significant policy attempts to improve incentives in order to increase work effort among single mothers. The EITC in the US increases in-work income relative to welfare benefits, thus lowering the replacement rate. EITC initially increases with income (Chart 15). This lowers the EMTR, and may even make it negative, encouraging part-time as well as low-wage full-time work effort. The EITC gives a maximum tax credit of \$2353 for a family with one child and \$3888, or \$75US per week, for a family with 2 or more dependent children,

before abating with income at 20 percent and phasing out at \$31000. All personal income tax paid is refunded to recipients of the EITC, and much of the payroll tax levied on those individuals (Johnson and Lazere 1998). In addition, 13 states have now piggy-backed a state EITC onto the federal EITC, with the state EITC often set so as to refund state income tax paid (Johnson 1999).

The EITC considerable more generous than New Zealand's only true in-work benefit, the IFTC, introduced in 1997, which provides \$15 per week per child, is only available for single mothers if they work more than 20 hours per week, and abates at 18 percent (plus tax of 21 percent) from \$20,000 to \$27,000, and then at 30 percent (plus tax of 21 percent). The FSTC is also provided to beneficiaries with dependent children as well as low-income workers. As such it does not alter replacement rates, and thus is a partial in-work benefit. The greater generosity of FSTC is shown in Chart 16.

Other positive labour market incentives have been provided. In New Zealand, the income exemption, or earnings disregard, was increased in 1996 from \$60 per week to \$80 per week, though tax at 15 percent on all earnings was paid. Abatement of the benefit with additional earnings used to be 30 percent between \$60 and \$80, and then 70 percent (plus tax of 21 percent, giving an EMTR of 91 percent). From 1996 the 30 percent abatement area increased to \$180 per week, giving an incentive to move into part-time work, providing additional income as well as permitting child-rearing functions. In 1998, almost a quarter of DPB recipients reported extra income, with 13 percent receiving more than \$80 per week. This gradual abatement of benefits with additional earnings provides part-time labour force incentives, but increases case loads and fiscal costs.

The 1991 benefit cut was to provide labour force incentive effects as well as being ideological, and to provide fiscal savings. Maloney (1997) calculated that 40-80 percent of employment growth after 1991 could be attributed to the benefit cuts, while Chiao and Walker (1992) estimated that labour supply of beneficiaries would increase by 2.2 percent. Both used high labour supply elasticities by international standards. There was a cessation of growth in numbers on the DPB, but changing eligibility requirement were as important as the benefit reduction. The introduction of a mandatory interview with the Employment Service from 1997 had a similar impact on numbers. Moffitt (1992)

reviewed the US literature on incentive effects of the welfare system. Most studies showed a small, but definite impact on labour supply from the provision of welfare.

In the US, eligibility for Medicaid for single mothers moving into work was maintained for a year after entry, offsetting a significant barrier to entry. Equally, providing Food Stamps to those in work but receiving less than 133 percent of the US poverty line raises the attractiveness of low-income work.

Raising the national minimum wage has been undertaken in both countries, and should make work more attractive, although the higher wage cost may make some impact on labour demand. While there is a debate about the impact of minimum wages on employment, most studies find little or no effect (Card and Krueger 1995). However, Turner (1999) shows that most low wage workers are not single mothers, but youth supplementing a family income which is above the poverty line. Stephens (1996) showed a similar result for New Zealand, with most low-income individuals living in families with average income levels.

### Incentives to Single Parenthood

An argument prevalent among conservative Americans is that the existence of AFDC/TANF has increased the incidence of single parenting, especially among never-married mothers. This concern, raised by Murray (1995) and others in the US, has surfaced in New Zealand, but has had no strong advocate, except for occasional magazine articles (McLaughlin 1997) and musing by politicians. The Personal Responsibilities section of PRWORA is explicitly designed to reduce single parenthood, especially among teenage mothers. In both countries there has been an array of policies to reduce the likelihood of teen pregnancy and single parenting, ranging from sex education to the New Zealand Strengthening Families project, and the equivalent programs which most US states have developed (Casey Foundation 1999).

The issue here is to investigate whether the welfare system itself has any incentive effects for mothers to become single parents. This does not imply that incentive effects dominate, or are even relevant to becoming a single mother. All the same, it must be recognised that the existence of a welfare benefit has allowed many to escape from unsatisfactory and violent relationships. Some of the growth in numbers of single

mothers in New Zealand during the 1990s was due to a successful police campaign to reduce domestic violence. If Snively's (1995) estimate of the annual cost of domestic violence is correct (\$1.2 billion NZ), then the police campaign will have had a socially desirable outcome even if there is the short-term fiscal cost of an increased case load.

The bottom section of Table 6 investigates the change in disposable income on becoming a single parent from a variety of possible family circumstances. In most cases there is relatively little financial gain, even if the alternative is very low earnings, on becoming a single parent. The calculations are based on the proportional difference in disposable income, before adjusting for housing costs, between the stated situation and being a single mother on welfare with a child aged three. For those moving off a benefit, in New Zealand it was the unemployment benefit, and for the US, previously the person was on unemployment insurance, based on full entitlement at 0.5 average male earnings.

The disposable income of a single mother on AFDC/TANF (in Pennsylvania) is 58 percent higher than receipt of unemployment insurance. In New Zealand the increase in disposable income is more than double, partly because the unemployment benefit for somebody under 25 is very low. In both cases, the increase in disposable income exceeds the additional costs of a child. If the change to single parenthood is from earnings at 0.5 average male earnings, in both countries there is a drop in the level of disposable income, even before the additional costs of a child is included.

If the situation was that of an unemployed couple separating, then the father in the US would be better off, and worse off in New Zealand (if under 25), however mother and child would be roughly 40 percent better off in both countries. No child support payments have been included in this calculation – in both countries payment of child support would reduce the father's income but not improve the situation of the mother and child as child support payments offset fiscal costs. If the couple was earning, then the father would have a substantial increase in disposable income, and standard of living, while the mother and child would be in the same financial situation.

As Whiteford (1997) comments, benefit systems have other incentive effects. A single mother reconciling or forming a new partnership will have the reverse incentive effects to those listed here. In other words, for single mother with one child to partner

with a male on 0.5 average earnings, the male would be substantially worse off, and mother and child marginally poorer.

## Summary

Since 1980, trends in case loads have been significantly different in the US compared to New Zealand. Whilst the US economic performance has been superior to that of New Zealand, resulting in far greater employment opportunities for single mothers, macroeconomics cannot explain the different trends in case loads. Cultural factors do not seem to be an explanation either, especially given the similar employment levels for married mothers between the two countries. Although benefit replacement rates are significantly higher in New Zealand, most studies have shown that incentive effects have a relatively small, but positive, impact on case loads. Neither does there appear to be any significant impact on the incidence of single parenting from either the provision of the welfare benefit or its structure and eligibility criteria.

The major factor affecting case loads seems to be the objectives and operation of policy. The switch in policy objectives in the US from child rearing to employment took several decades, but seems to be the major factor behind the flattening off of case loads since 1980, and the reduction since the introduction of PRWORA in 1996. But a favourable macro-economy is also required for the policy to be successful: the 1991 attempt in New Zealand to give greater emphasis to employment of single parents foundered on a stagnant economy. The 1998 policy changes in New Zealand have initially been more successful due to the improved macro-economy.



## CONCLUSIONS

New Zealand and the US have a substantially greater proportion of single parent families than all other OECD countries. There is no evidence to suggest that this high incidence is due to the provision of a benefit dedicated to single parents – AFDC/TANF in the US and the DPB/Community Wage in New Zealand. Both countries have a very similar demographic structure, with most single parents being single mothers, a declining share of widows and a greater proportion of never-married mothers. There is a strong ethnic bias to single motherhood, with Maori in New Zealand and African/American in the US having a far higher incidence. All the same, white Europeans make up the majority of single mothers, and have a very high incidence of single motherhood in the US, though average in New Zealand.

Despite these demographic similarities, there are significant differences in the outcomes for single mothers. The US has a relatively high employment rate compared to other OECD countries, while New Zealand has one of the lowest employment rates. Most comparative studies have argued that employment is the best solution to poverty in each country. Even though employed single parents have far lower poverty rates than those receiving welfare benefits in both countries, when the comparison is made between the countries, the US is seen to have a very high poverty rate for single parents, whether employed or not. New Zealand, on the other hand, has a moderate poverty rate for single parents, although a significant proportion are trapped on the edge of poverty.

There are several reasons for this paradox. First, welfare benefit levels in New Zealand are substantially higher than those in the US, being close to the international poverty line of 50 percent of median disposable income. The US benefit levels, which vary substantially between the states, are generally below even the meagre US poverty level. Second, the US employment success has been based largely on low wages, with the national minimum wage being below the poverty level for a single mother with children. New Zealand has had a more egalitarian wage structure (though it has had the largest increase in inequality in the OECD (Hills 1995)).

There is also a substantial difference in the level and trends in case loads and fiscal costs of welfare provision. Since 1980, the US has stabilised and then reduced the number on AFDC/TANF, with low fiscal costs, while New Zealand had increasing

numbers on the DPB and fiscal expenditures, at least until 1998. Policy differences account for much of this divergent trend: in the US the objective has been a switch from child-rearing to employment, with PRWORA representing the final switch to employment as the primary goal and welfare as a last resort. The switch to employment as a major objective of single mother policy in New Zealand started in 1991, but was hindered by a sluggish economic performance. Both countries have tried to contain expenditure and give labour force incentives by cutting welfare benefit levels, but changing the incentive structure has had little impact.

It is too early for the New Zealand changes to be evaluated, but policy makers there need to take heed of the US debates and discussion. Most commentary on the US reforms is generally positive, mainly due to the massive fall in welfare rolls. But significant question marks over the outcomes of the reforms have been raised, as well as querying how single mothers will fare in an economic recession. It is recognised that there is still an unfinished agenda if single mothers in work are going to be able to support their families adequately, and the problems and issues for those remaining on welfare have to be faced. Some of this is too large for welfare reform, such as a change in the structure of low wage employment. But other strategies can operate within the existing framework; for instance the ideas suggested by Sweeney *et al* (2000), drawing upon existing innovations devised by different states, and Greenstein's (2000) proposal to extend EITC to larger families.

Lerman (1998) is cautiously optimistic about the US welfare reforms, arguing that the results of new approach which "promotes work but continues to assist low-wage workers heading families ... are promising for many but damaging for some." Loprest (1999) indicates that many of those who left welfare finished up in low-wage jobs at non-standard hours, and a quarter of leavers have no employment, and others have returned to welfare. Lazere (2000) shows that many states have unspent TANF block grant at the end of 1999, and argues that these funds could be used to reduce poverty through the provision of child care and transportation assistance. The EITC has lifted many working poor out of poverty (Greenstein and Shapiro 1998), but "the number of low-skilled jobs that pay enough to support a family has been declining" (Sweeney *et al* 2000).

In some ways, the operation of the US welfare system, especially since the implementation of PRWORA, is along lines similar to that of Sweden. Both countries argue that employment is the first and preferred option, and have developed extensive case management approaches to ensure employment. However, the Swedes operate within an egalitarian economy with high wages for women, and extensive government provision of child care and paid parental leave. Poverty relief and child development are the prime concerns, and this is shown in the outcomes. The US government, at all levels, offers little assistance to offset the extra costs of work, and employment growth is in the low-wage, service sector of the economy, with little prospects for personal advancement.

Part 2 of this paper will give a more detailed evaluation of the various policy options which can increase employment opportunities for single mothers, reduce poverty and provide positive benefits for the development of children raised in single parent families. These policy options need to operate at the level of the national economy, at regional levels and at local levels, which is where single mothers reside. Policy options need to take account of the way labour markets operate, and the dynamics of employment and welfare receipt. The policy options evaluated range from time limits for the dole through benefit levels, child care assistance to in-work financial and travel assistance.

The EITC has probably been the most successful policy development, giving positive incentives to move into employment, increasing earnings and reducing poverty. However, there must be some concern that the provision of the EITC locks in a structure of low earnings, supplemented by government assistance, rather than providing a living wage. EITC also needs to be extended to larger families, and made more generous at wage levels which single mothers entering employment are likely to receive.

An extension of FSTC and IFTC seems to be the most promising avenue for policy development in New Zealand to assist single mothers enter employment. But in both countries, in-work benefits are insufficient in the absence of affordable, high quality child care, improved education and training as well as the provision of transport in order to reach the jobs. Concern for the welfare of the child, especially younger children, should mean that part-time employment is the viable option, with the benefit system structured to provide that incentive.

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<sup>1</sup> Castles and Mitchell (1991) disagree, arguing that New Zealand and Australia form a fourth category of 'a worker's welfare state'. Trade union pressure plus left-leaning governments ensured full employment at an adequate family wage. The welfare system could then afford to be residual and provide high benefit levels for minimum welfare effort. However, the 1991 benefit cuts, the removal of trade union coverage and subsequent targeting of much social spending has placed New Zealand firmly in the liberal welfare state category (Boston *et al* 1999).

<sup>2</sup> New Zealand also has a Widows Benefit, introduced in 1911. While technically only available to widows, many deserted and divorced women also received the benefit until the DPB was introduced in 1973 (McClure 1998).

<sup>3</sup> OECD (1993) notes that women on maternity leave in Sweden and Finland are regarded as being in the labour force. When allowance is made for the fact that maternity leave can last for three years, these countries participation rates are closer to those of the US, where there is no general provision for maternity leave.

<sup>4</sup> The author was the New Zealand correspondent for these studies, and Professors Alfred Kahn and Sheila Kammerman, Columbia University, reported for the US.

<sup>5</sup> This study built upon two other international comparisons undertaken by the University of York for the UK government. One study had looked at the generosity of assistance to families with dependent children, showing significant variations in the extent to which nations offset the additional costs of children, as well as different ways of structuring a child assistance package from universal to selective approaches or reliance upon cash or tax assistance (Bradshaw *et al* 1993, Stephens and Bradshaw 1995). The second study looked at income and means-tested social assistance regimes in OECD countries, with significant emphasis upon entitlement rules and eligibility conditions as well as levels of assistance shown by household type and income level. There were three groups of countries: the majority who predominantly relied on social insurance, with relatively little questioning of welfare policy; a group of the US, UK and Ireland, with a mix of social insurance and social assistance, where social assistance spending was under

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significant political pressure to be cut, and countries such as Australia and New Zealand which rely exclusively on social assistance, with pressure to cut all forms of social spending (Eardley *et al* 1996).

<sup>6</sup> Stephens *et al* (2000) argue that for New Zealand economic and social policy parameters that the poverty line should be set at 60 percent of median household equivalent disposable income. They also omit 'outliers', or those declaring self-employed losses or with an expenditure three times their income. Although this lowers the overall poverty rate by 3.3 percentage points, it is unlikely that this omission and the less generous equivalence scale will have had a significant impact on the poverty incidence for single parents in New Zealand.

<sup>7</sup> Access to public tertiary health care services is universal and fully funded from general tax revenue. People receiving any form of welfare assistance from the government are eligible for subsidised primary and secondary health care services.

<sup>8</sup> Howard (2000) calculated that tax expenditures in the US are about 7 percent of GDP, with many of the larger tax expenditures, such as medical insurance, pension contributions and home mortgage interest deductions, relating to the provision of social services. Only the Earned Income Tax Credit goes to the lower income groups.

<sup>9</sup> To date, the scheme has not been successful due to limited participation by community groups. These groups received little compensation for participation in the scheme, but claimed they had either high set-up costs for new projects, community wage workers required extensive training and supervision, or that there would be displacement of existing voluntary workers (often undertaking voluntary work as a means of developing work skills and signaling them to employers).

<sup>10</sup> The possible explanation comes from mothers who are cohabiting with the non-biological father, but still claiming (illegally) the DPB. In the US, London (2000) indicates that 12 percent of single mother welfare recipients cohabit with an unrelated man, but legitimately received AFDC.

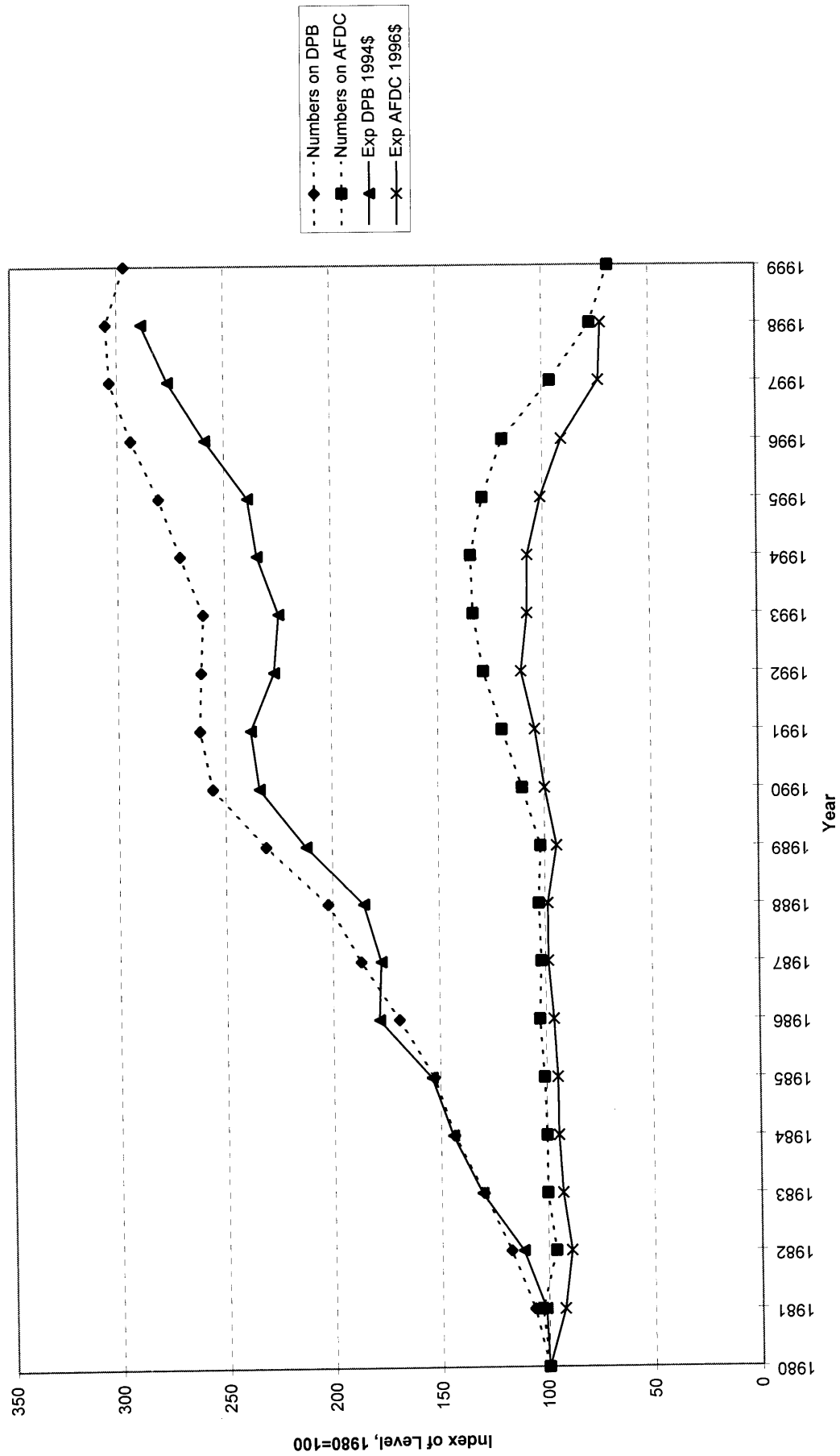
<sup>11</sup> The formula is (Incidence based on market income less Incidence based on disposable income) divided by Incidence based on market income.

<sup>12</sup> This result seems to be at variance with the results of Stephens and Bradshaw (1995) who concluded that the US is more generous to families with dependent children than New Zealand, both for beneficiaries and those in the workforce. The Stephens and Bradshaw study looked at the additional income that families with children receive relative to families without children, whereas here the concern is with the total income received by single parents with dependent children.

<sup>13</sup> In reality, there are more decisions these. Taxes and benefits can affect decisions on schooling, migration, marriage and divorce for example.

<sup>14</sup> Purchasing power parities are a better reflection of relative standards of living between two countries than exchange rates. Exchange rates can be distorted by a country's monetary stance and its relative ability to import and export, which may be independent of cost-of-living. Over the last year, the New Zealand exchange rate has fluctuated from 45cents to 55cents per US\$, while purchasing power parity has been roughly stable at 66cents.

**Chart 1**  
**Trends in Expenditure and Numbers on the DPB and AFDC/TANF, 1980-1999**



**Chart 2**  
**Growth of Single Parent Families, 1970-1995**  
 (Single parent families % of total families with dependent children)

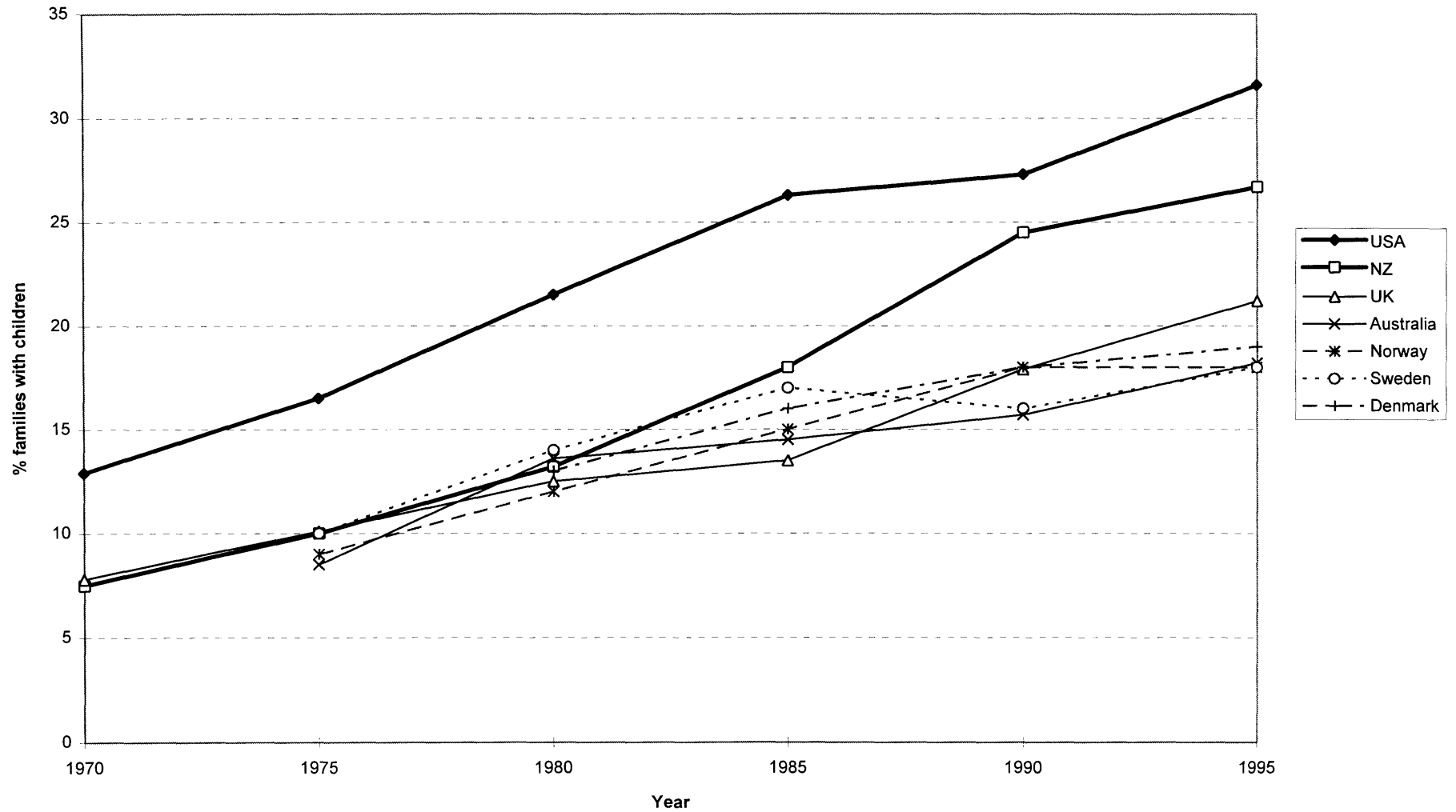


Chart 3  
The Changing Structure of Single Motherhood, US and New Zealand, 1970-1996

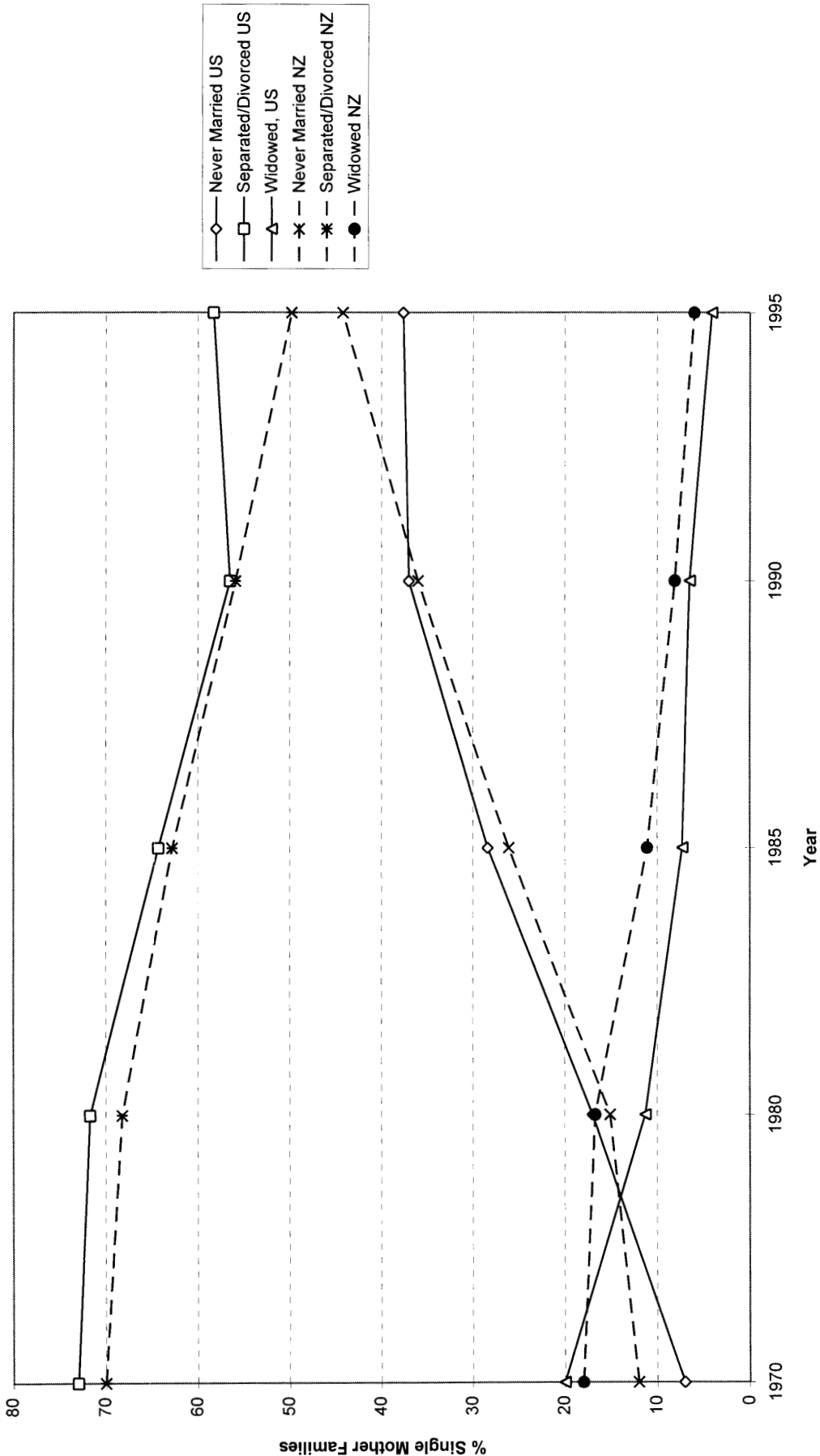


Chart 4  
Divorce Rates 1970-1995

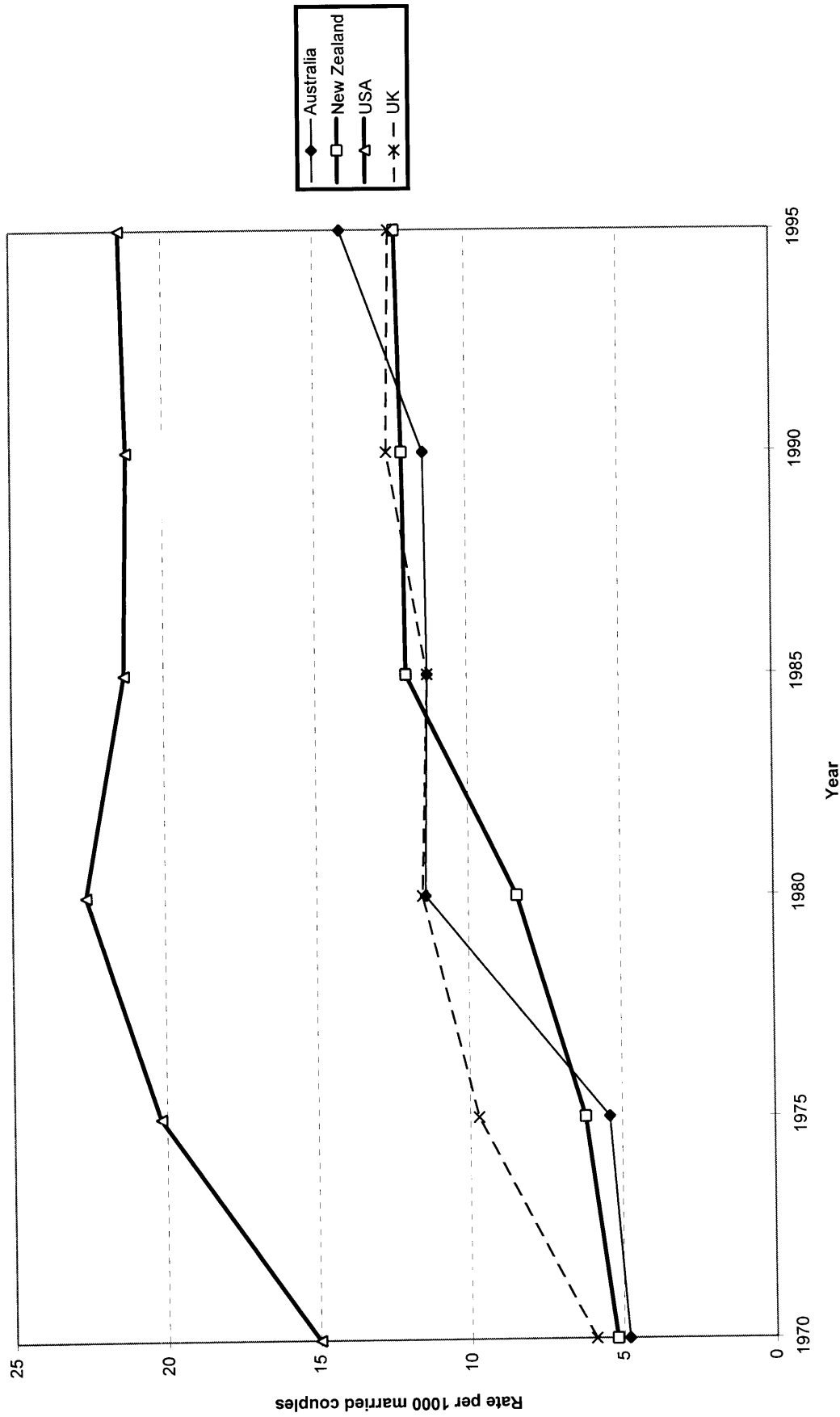


Chart 5  
Trends in Births Outside Marriage, 1970-1995

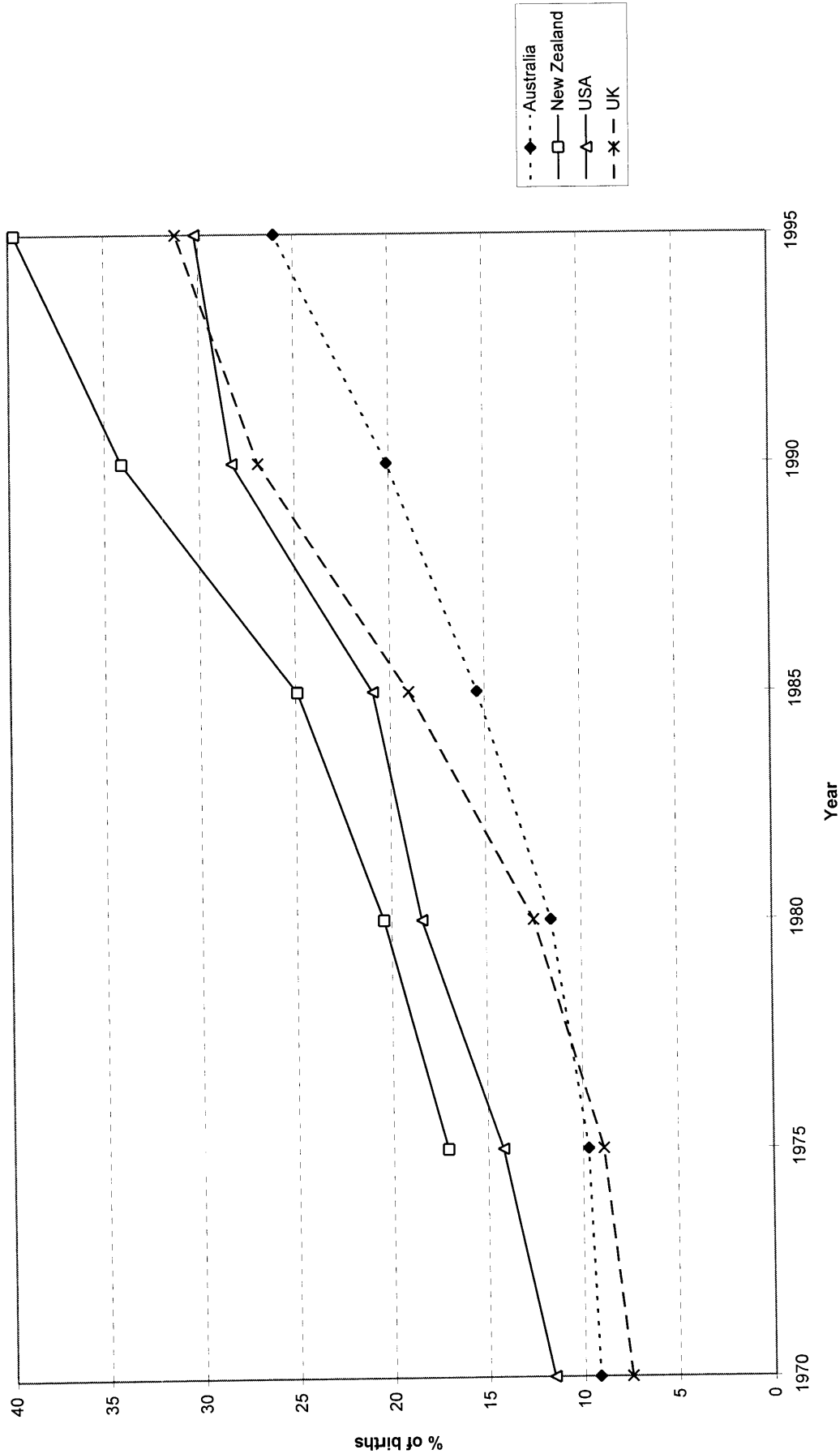




Chart 6  
Teenage Birthrates, 1970-1995

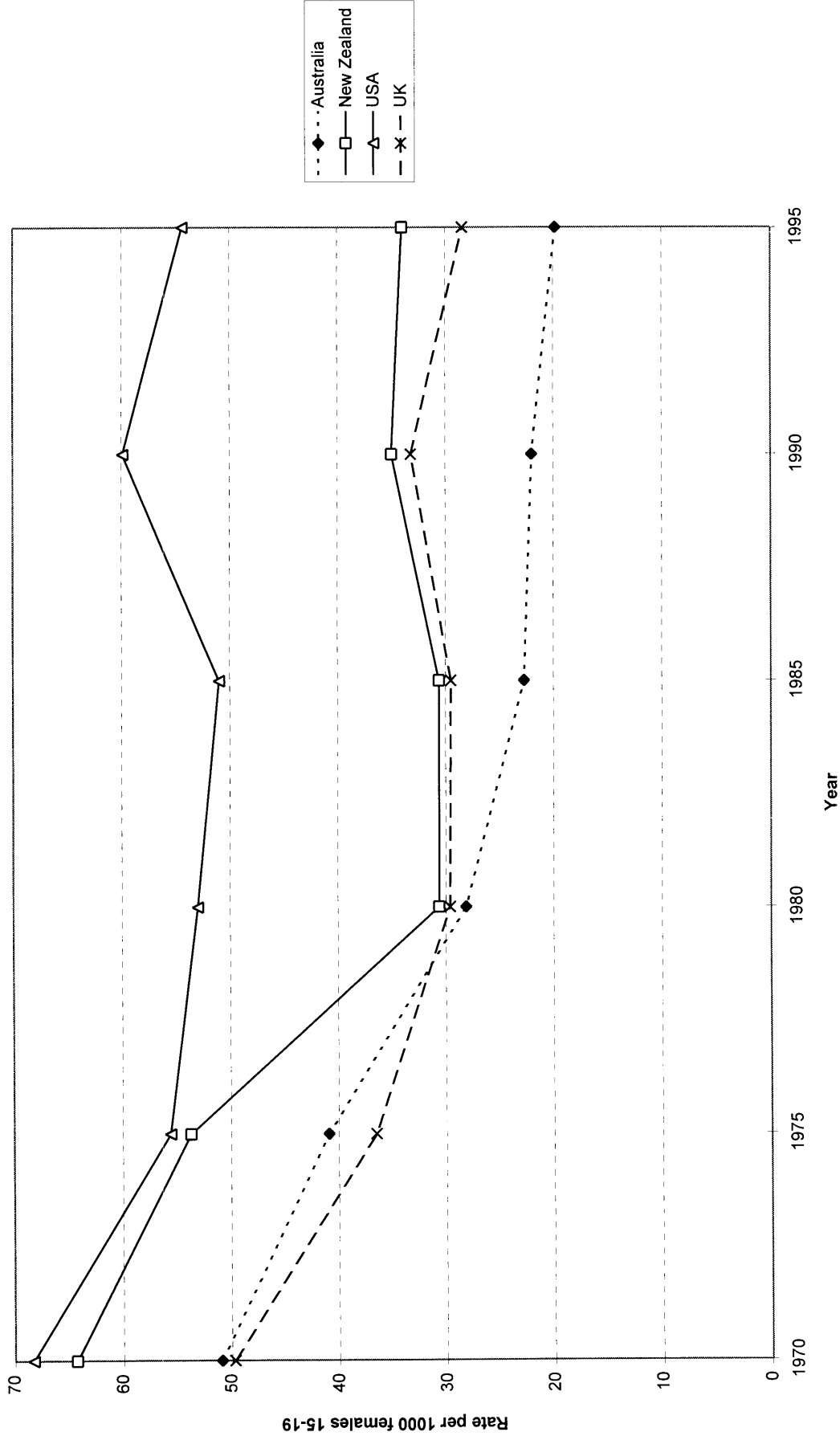
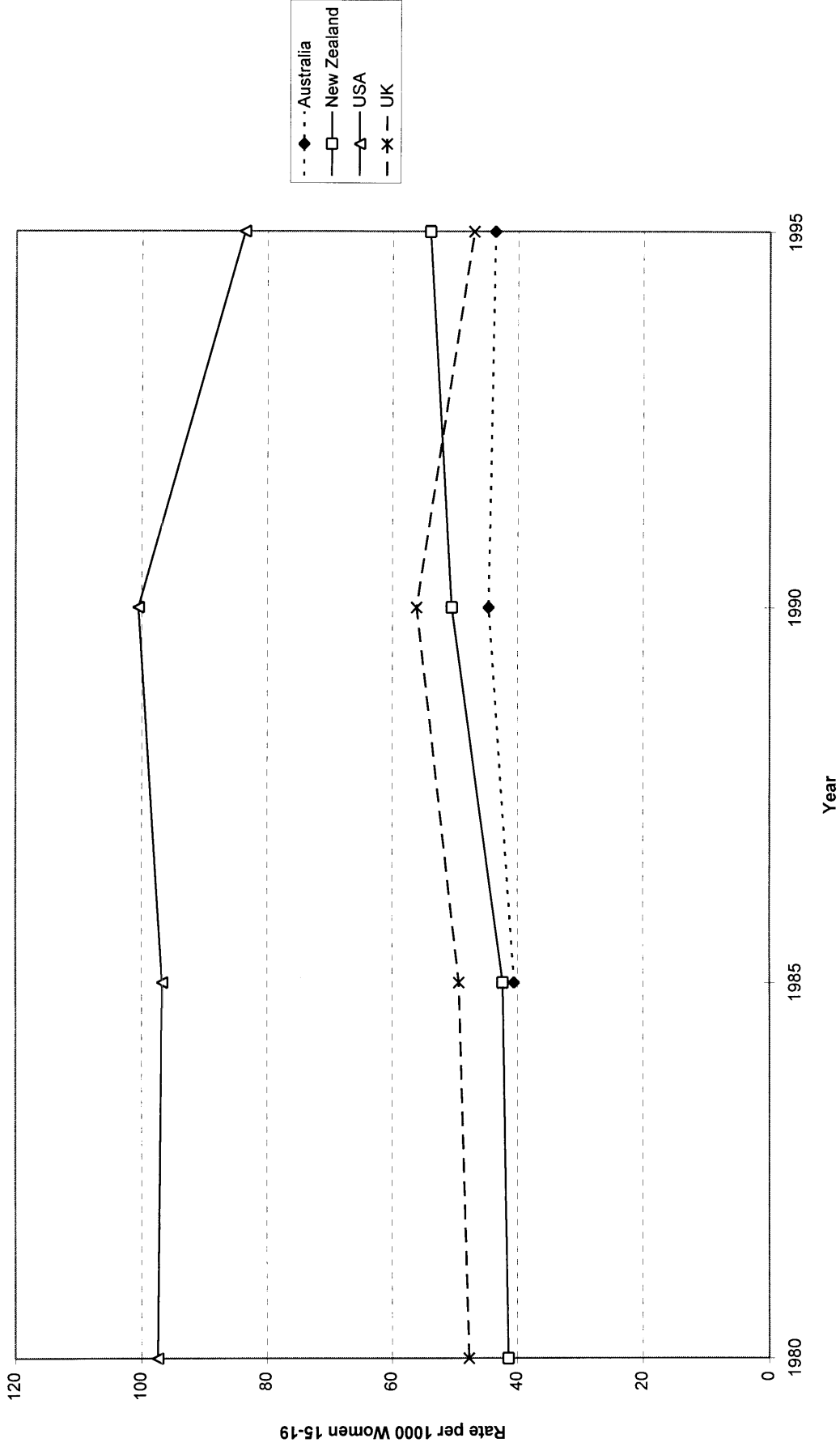
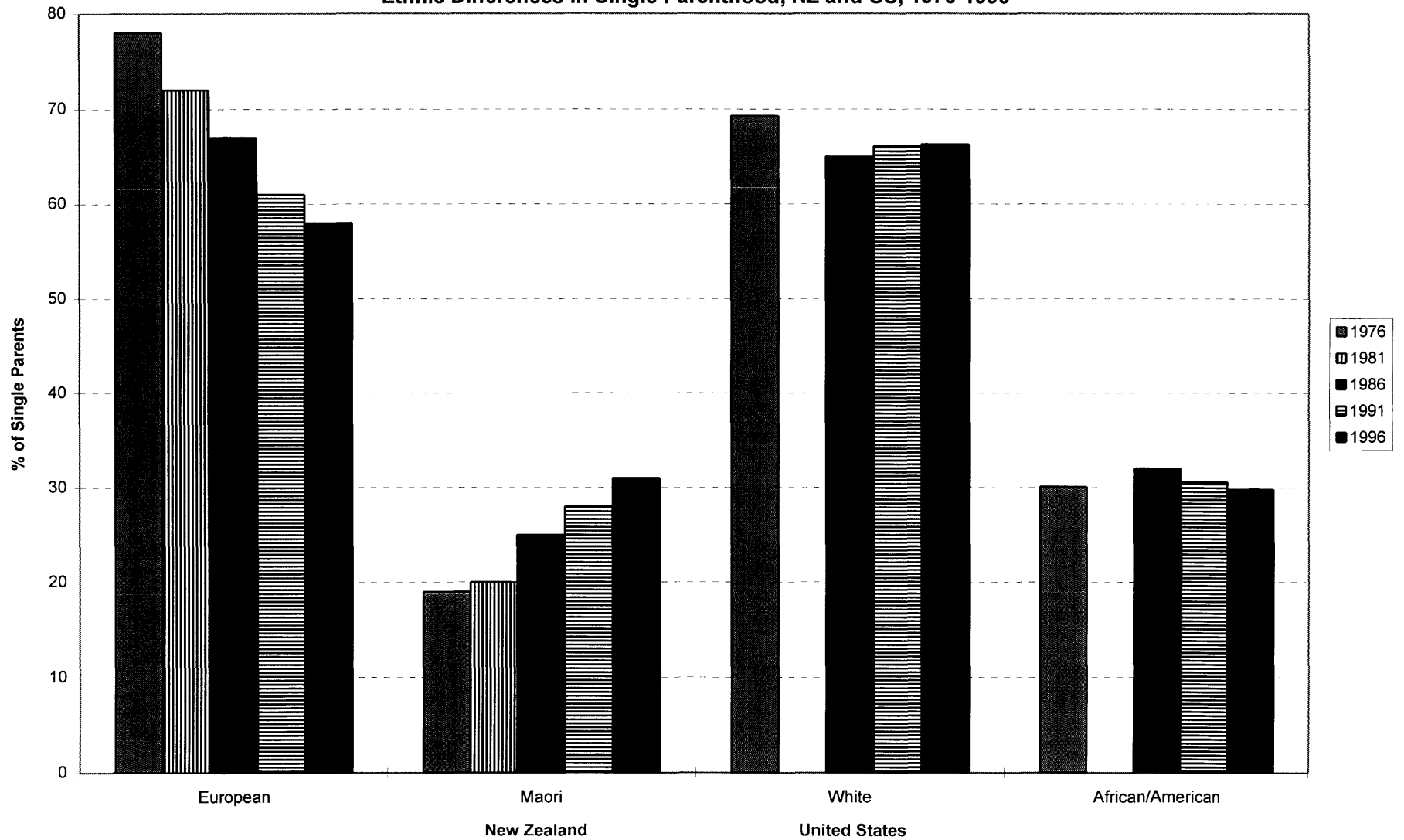


Chart 7  
Teenage Pregnancy Rate 1980-1995



**Chart 8**  
**Ethnic Differences in Single Parenthood, NZ and US, 1976-1996**



**Chart 9**  
**Single Parents as a % of all Parents, US and NZ, by Ethnic Group, 1976-1996**

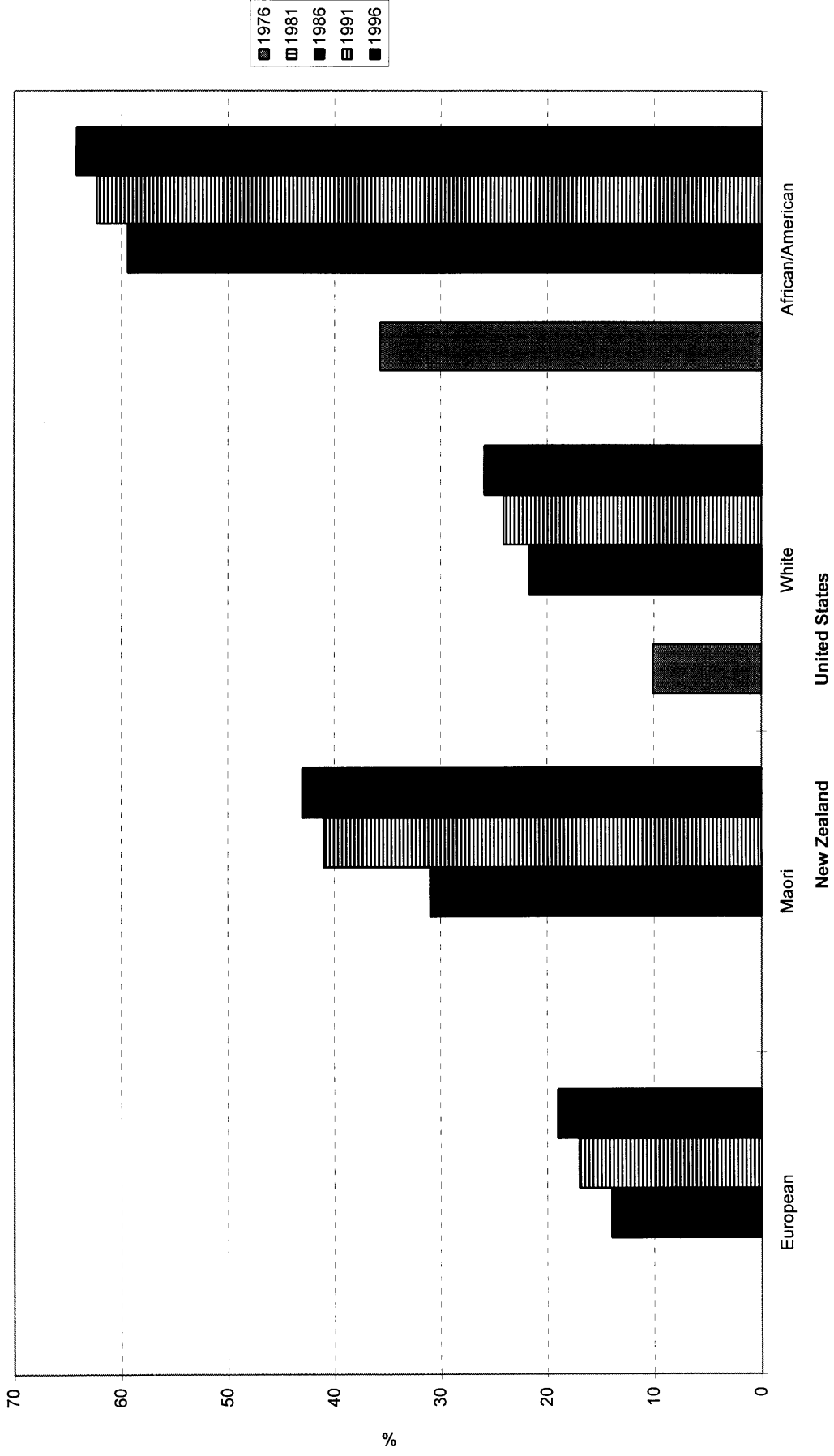


Chart 10  
Trends in Real Expenditure on Means-Tested US Welfare Programs, 1980-1998

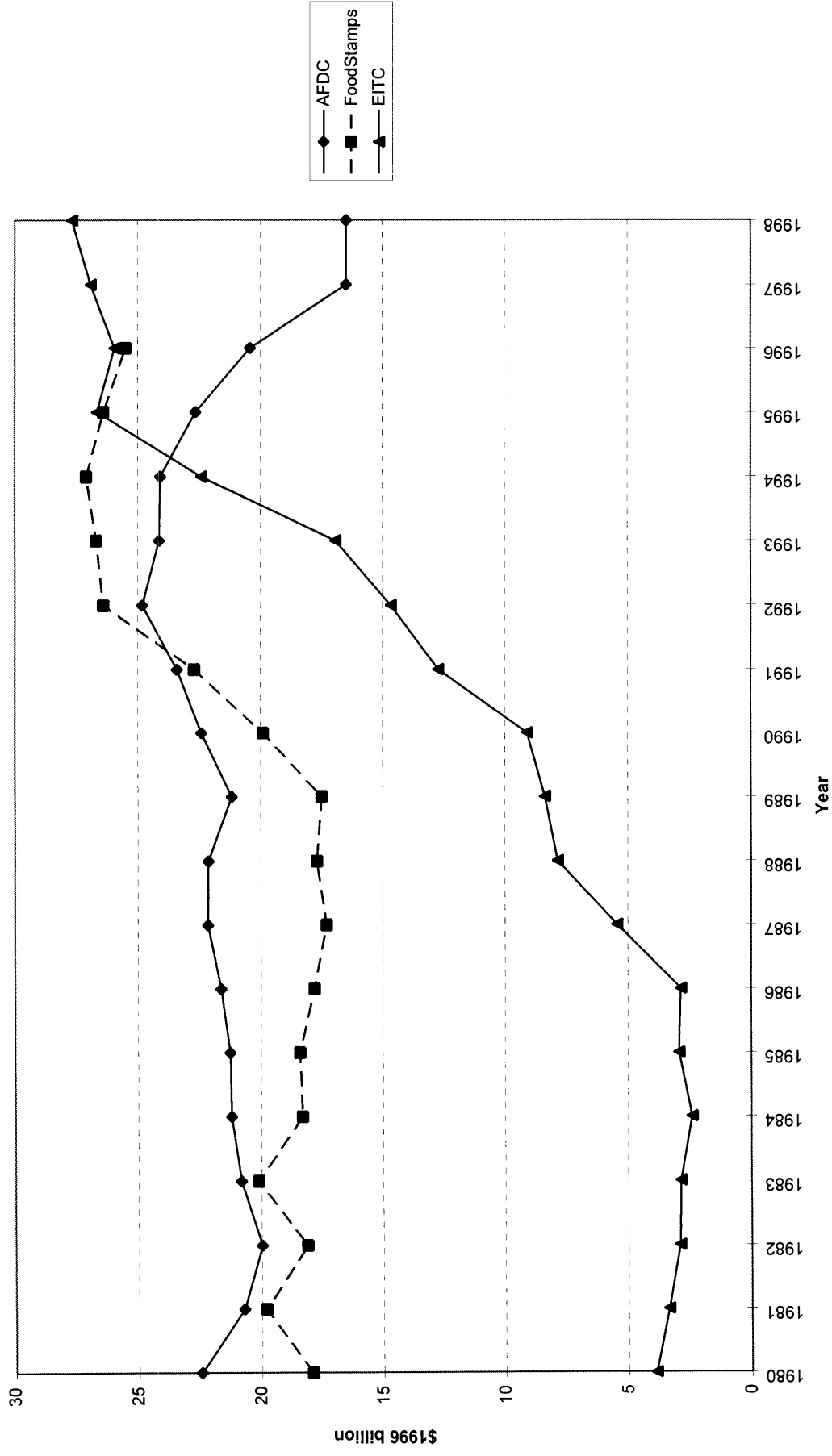
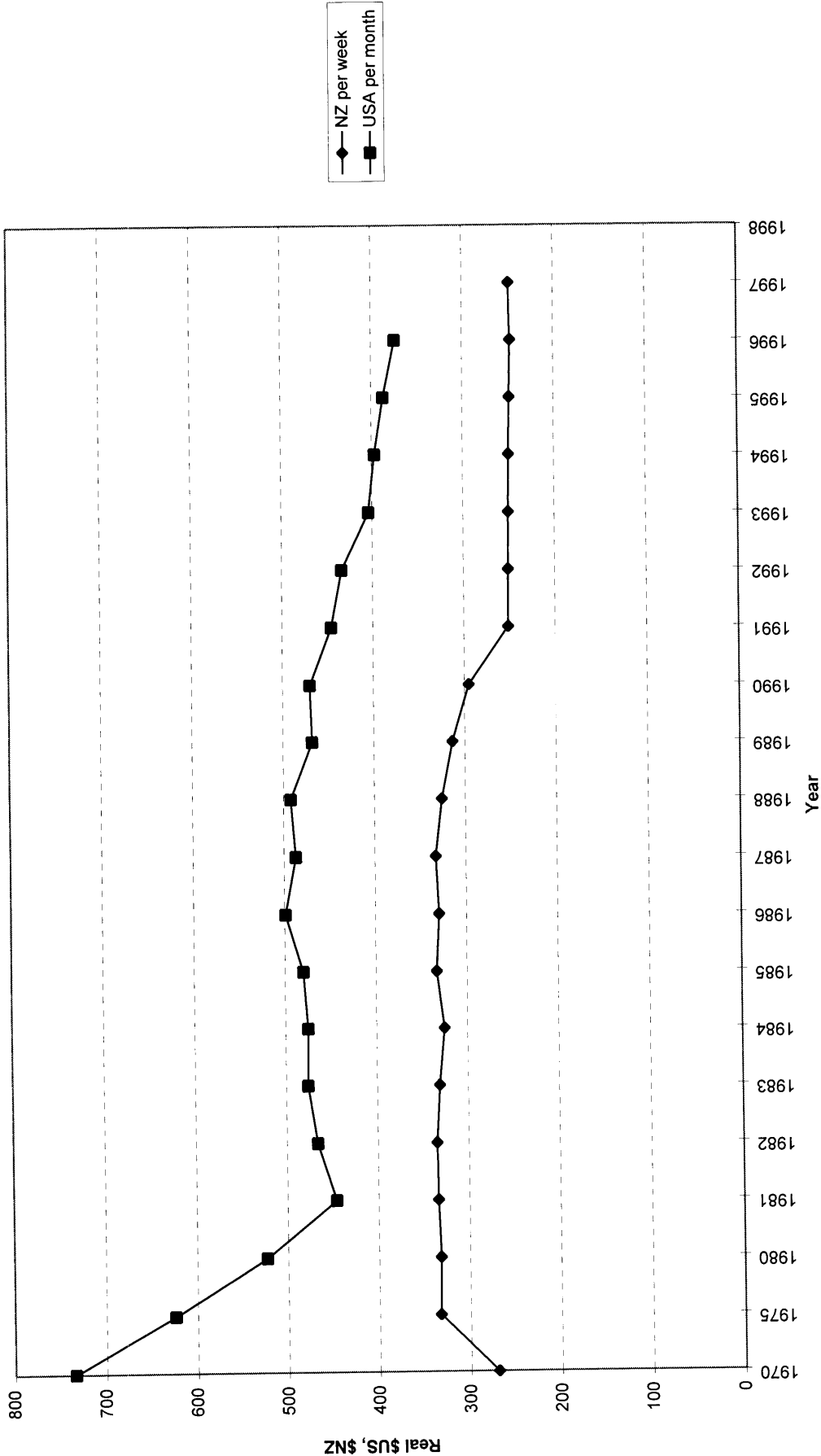
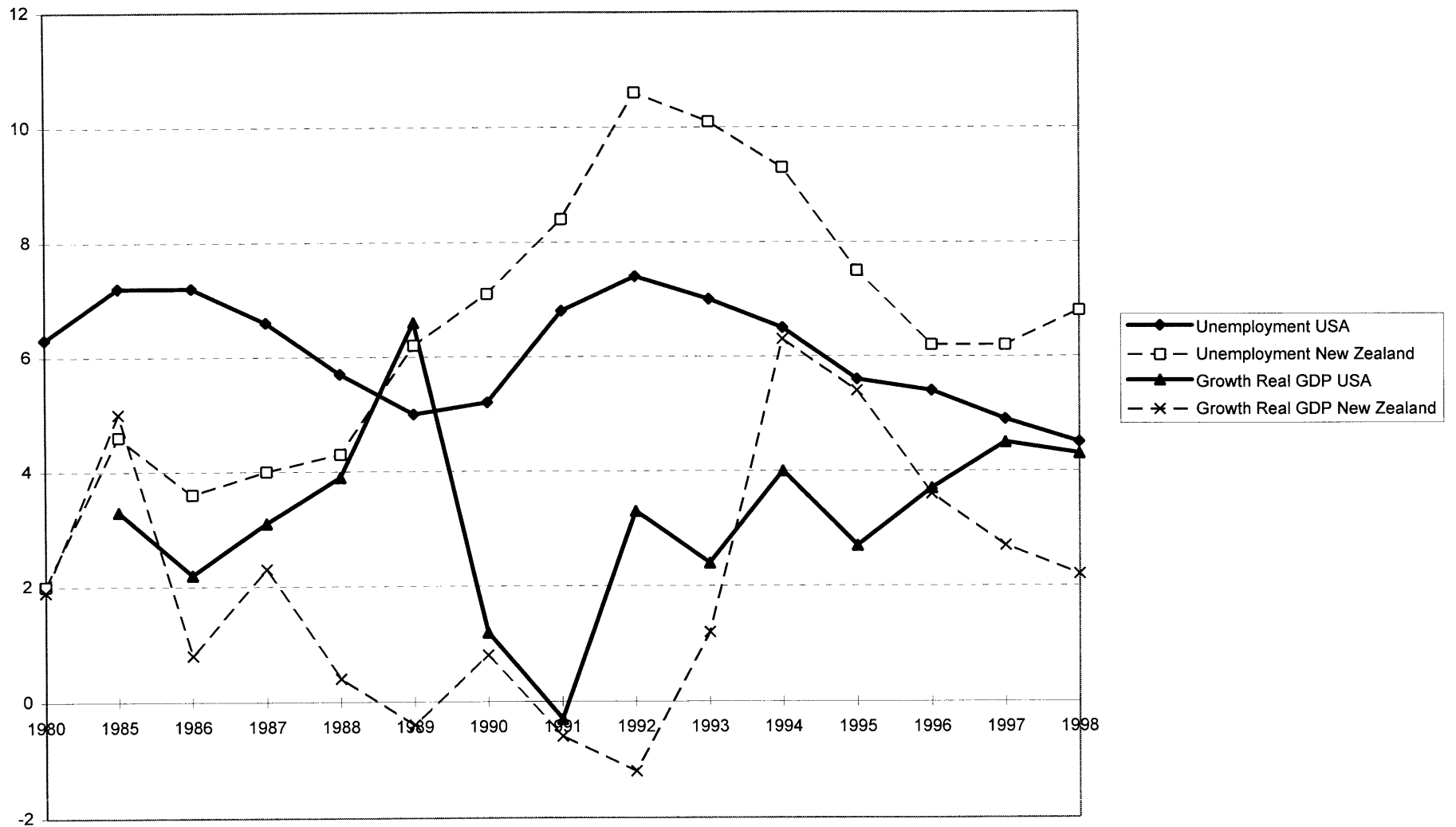


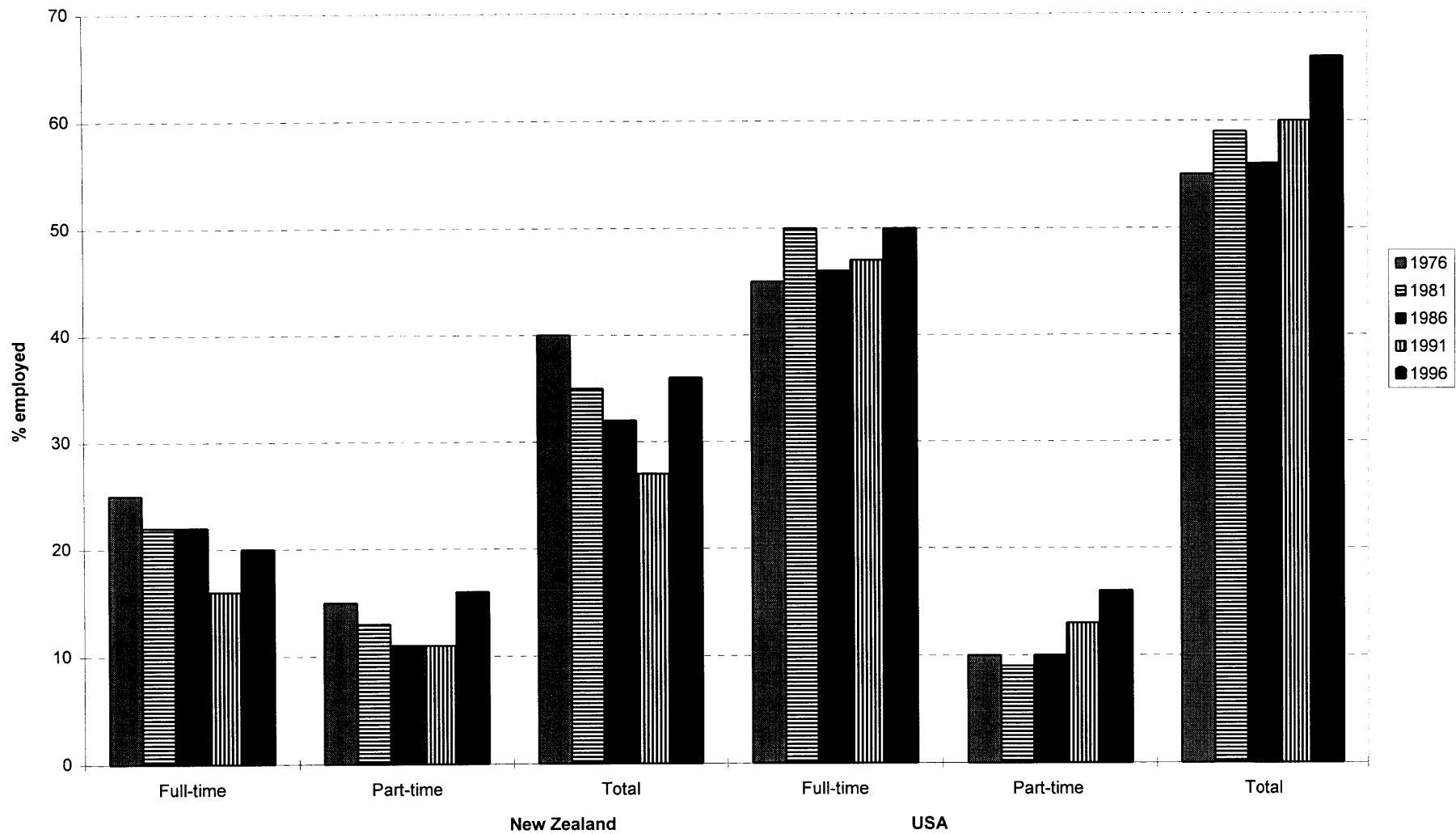
Chart 11  
Trends in Real Benefit Levels for a Single Parent -  
2 children, USA, one child New Zealand - 1970-1998



**Chart 12**  
**Economic Growth and Unemployment Rates,**  
**New Zealand the US, 1980-1998**

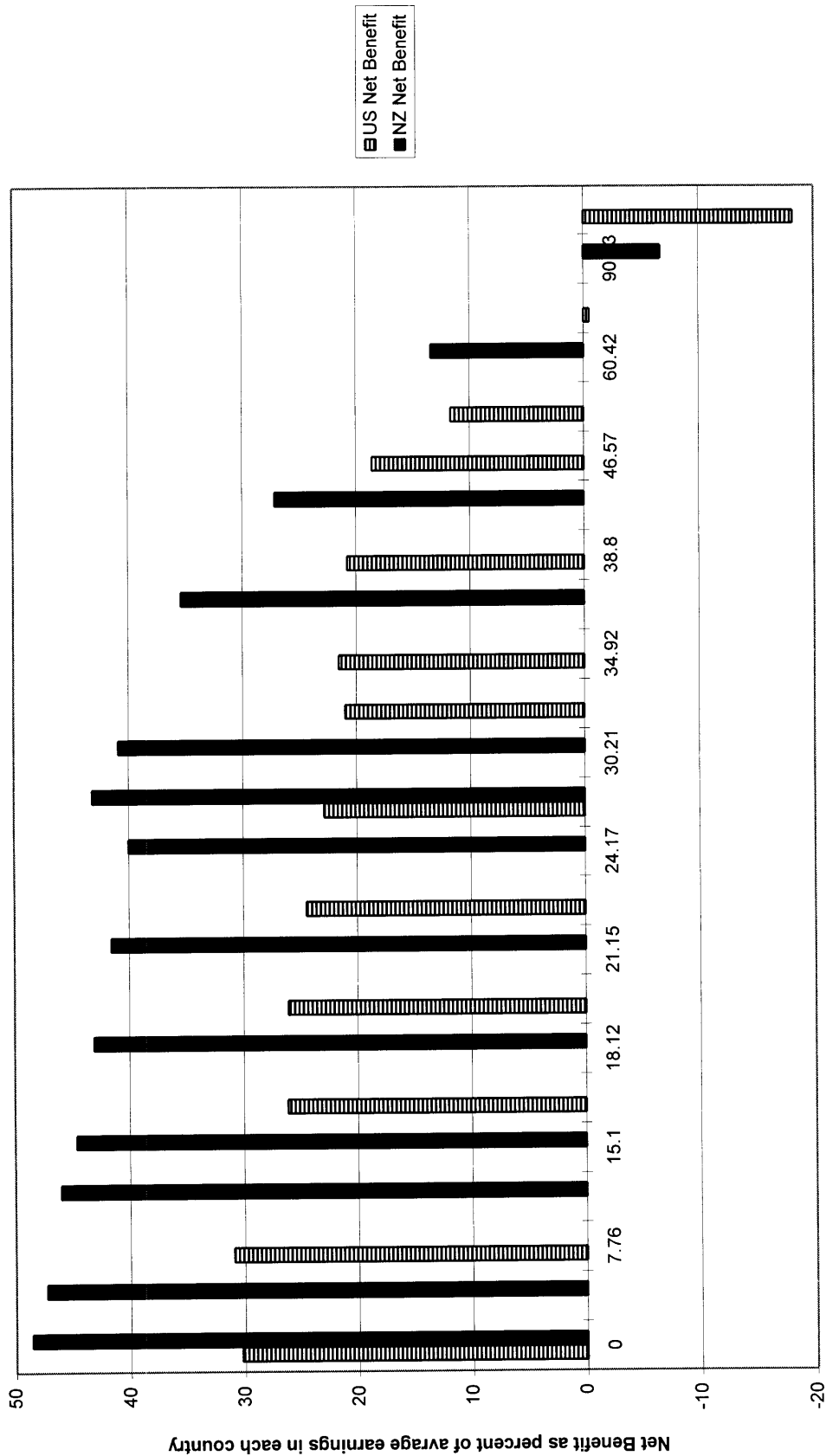


**Chart 13**  
**Employment of Single Mothers, 1976-1996, New Zealand and USA**





**Chart 14**  
**Net Benefit for a Single Parent with Two Children, New Zealand and USA, as percent of average earnings in each country.**



Earnings as percent of average earnings in each country

Chart 15  
USA: Relationship between AFDC, Earnings and Net Income, 1996

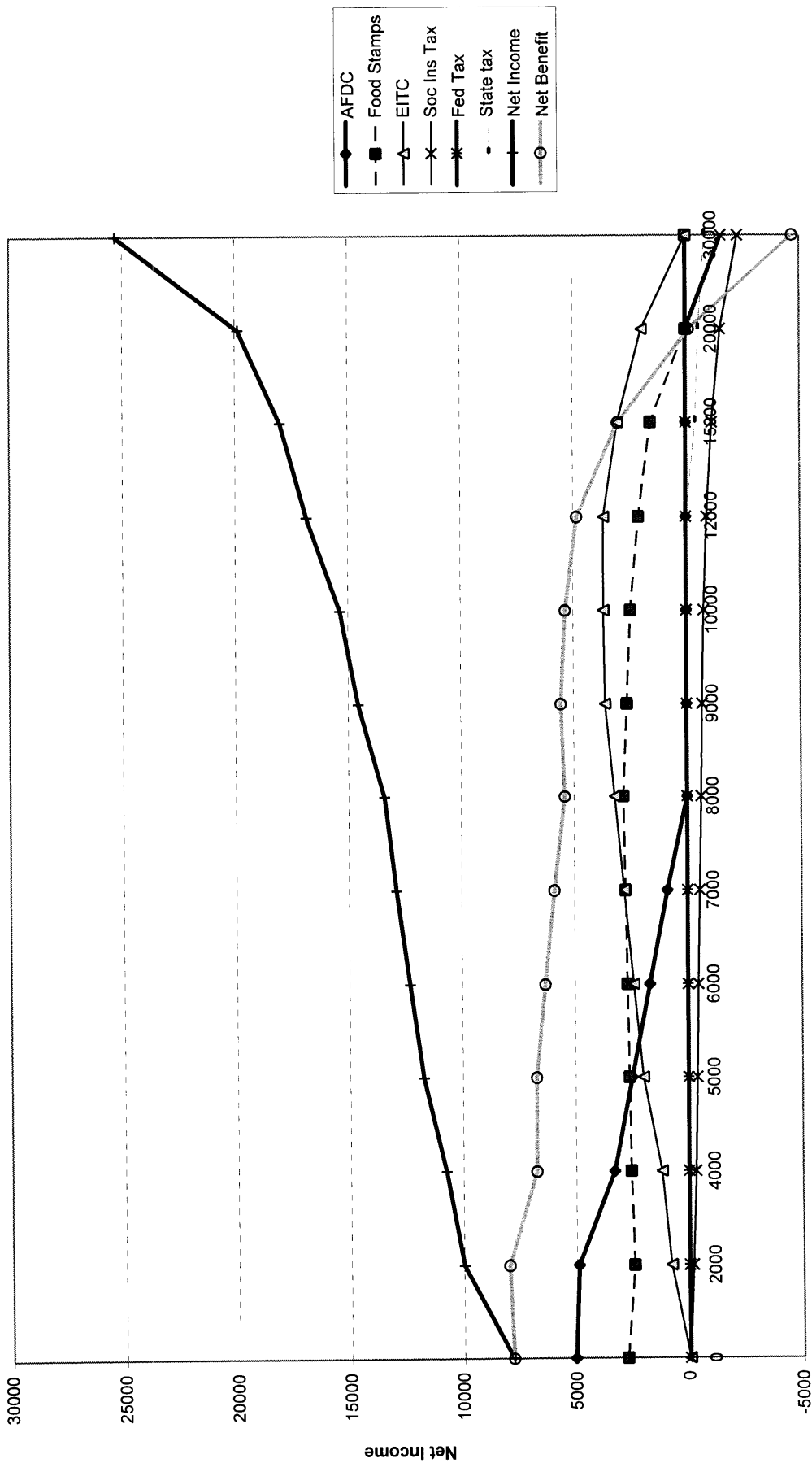
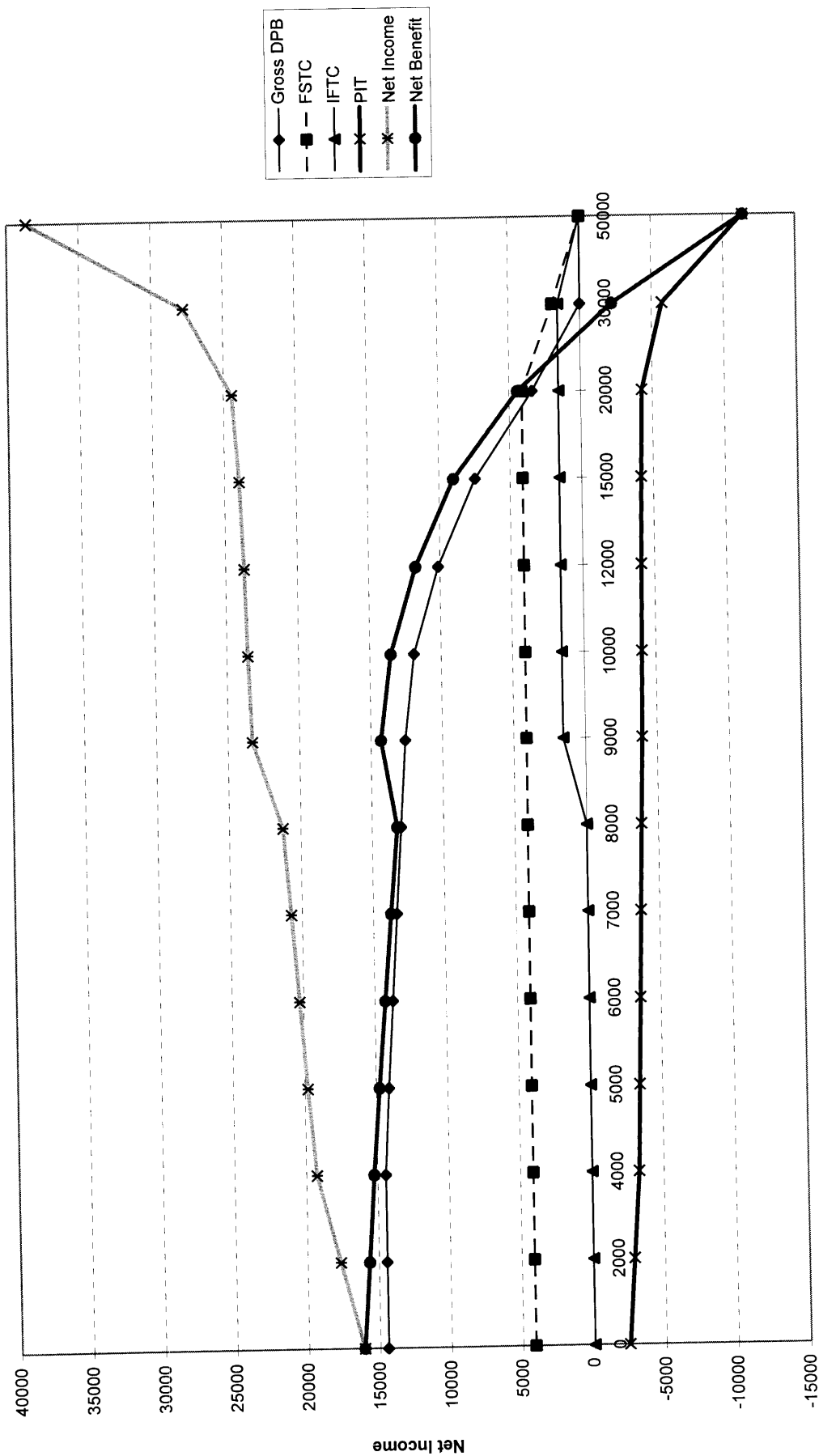


Chart 16  
New Zealand: Relationship between Benefits and Earnings



Earnings